FINANCIAL TIMES

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Singapore slaps the hand that feeds it, Page 18

World News

Azerbaijan and Armenia party chiefs dismissed

Communist Party leaders in the Soviet republics of Armenia and Azerbaijan were sacked from their posts, in an attempt by Moscow to reimpose its authority after months of ethnic unrest and nationalist demonstrations. Page 18

Violence flares as Israel reopens Arab schools

Violence flared in the occupied territories as Israeli authorities, reopened schools in East Jerusalem - closed during the disruptions of the past four months - in an attempt to restore normal life to the city. An Arab woman and her son were killed when their car was hit by a fire bomb in the West Bank, and a third Palestinian died after a clash with Israeli soldiers. Page 2

S African sales call

The far-right Conservative Party called on the South African Government to suspend strategic mineral sales to the US in retaliation for anti-apartheid sanctions.

Shultz on Noriega deal

George Shultz, US Secretary of State, indicated that he still favours a decision not to pursue drug-trafficking charges against General Manuel Noriega, Panamanian leader, if this facilitates US efforts to force the general out of office. Page 2

Soweto grenade attack

Two people were killed and more than 30 wounded in a grenade attack on blacks attending a political rally in Soweto. Page 2

Syrian troop plan set

Syrian and Iranian negotiators finalised plans for 7,000 Syrian troops to move into Beirut's southern suburbs to halt 16 days of bloody street battles, pro-Syrian sources said.

Punjab bomb blast

A bomb blast killed at least four people and injured 20 in the northern Indian state of Punjab. Page 3

Oman warns Iran

Oman's coastguard warned the Iranian Navy to stay out of Omani waters as Tehran's forces began naval exercises near the Strait of Hormuz.

Famine row ultimatum

Ethiopia, locked in a bitter quarrel over control of famine relief in the war-torn north, has given the Red Cross 15 days to remove its undistributed food and medicine, which Ethiopians say is rotting. Page 2

Firestone strike ends

United Rubber Workers union of the US ended a week-long strike against Firestone Tire and Rubber Company, and union members at rival Goodyear Tire and Rubber Company approved a new labour contract.

WEU protest

Thousands of people marched through central Madrid to protest Spain's entry into the Western European Union, a European defence forum and alliance.

Italian fascist dies

Giorgio Almirante, leader of Italy's neo-fascist Movimento Sociale Italiano party for more than 40 years, and former official in the government of Benito Mussolini, has died, aged 73.

Philippines massacre

A member of Philippine President Corazon Aquino's security unit ran amok while on a drinking spree with friends and shot dead 12 people, including three children.

Le Pen v Le Pen

Pierrette Le Pen, former wife of French ultra-right leader Jean-Marie Le Pen, is to run for election next month in her latest snub to the National Front chief.

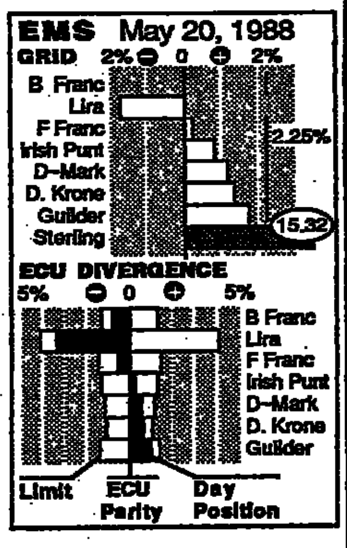
Business Summary

Amax buys back stake in Chevron for $349m

AMAX, large US mining and metals company, has bought back 15.2m of its own shares from Chevron, the San Francisco-based oil company, for $23 a share or $349m. Page 20

FERMENTA, Swedish animal health and chemicals group, showed a profit (before allocations and taxes) of SKr59m ($10m) in the first four months of 1988, against a loss of SKr83m in the comparable period last year. Page 20

EUROPEAN Monetary System: Most currencies traded within a narrow range last week, as business wound down ahead of today's Whitsun holiday.



The French franc continued to trade comfortably, showing little reaction to President Mitterand's decision to hold a general election next month.

A sharp contraction in the US trade deficit underlined recent concern about rising inflation. However, the West German Bundesbank left key lending rates unchanged after Thursday's central council meeting.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies. Currencies, Page 34

SEVEN-UP and Dr Pepper, US drinks groups, announced the completion of a merger which makes Prudential-Bache Securities a major partner in the new company, which is to be called Dr Pepper-Seven-Up Companies. The merger transaction is worth about $1.8bn.

GB-INNO-BM, Belgium's largest supermarket group, has lifted 1987 group net profit 25 per cent to BFr1.9bn ($53.5m) from BFr1.5bn, and raised its net dividend for the year to BFr24.50 a share from BFr22.50. Page 20

NBM and Amstelland, big Dutch construction groups, plan a merger to create the Netherlands's second largest construction company. Page 19

INCO, Canadian resources group, is to sell 20 per cent of PT Inco, its nickel-producing Indonesian subsidiary, to Sumitomo Metal Mining, Japan's second-largest non-ferrous metals group, for US$100m.

CSR, one of Australia's best known resource groups in the early 1980s, has neared completion of its transformation into an industrial company with the sale of its Australian mineral exploration and development activities. Page 20

DAINIPPON Ink and Chemicals, best-known outside Japan for its aggressive acquisition policy in the US, has reported a 20.1 per cent increase in annual pre-tax profits to Y14.5bn. Page 20

ROWNTREE, UK confectionery company fighting a takeover bid from Nestlé, criticised the Swiss company's track record in brand management, and said research showed that key Nestlé brands had suffered a loss of market share in the 1980s. Page 22

Bush looks for Teflon coat to overcome sticky patch

BY STEWART FLEMING, US EDITOR IN WASHINGTON

AS PRESIDENT Ronald Reagan's top national security advisers were leaving the White House on Saturday, the television cameras focused on an evidently cheerful *tête à tête* between Vice President George Bush and the close friend many Bush supporters cannot wait to see take control of his troubled presidential campaign, Mr James Baker, the US Treasury Secretary.

It was Mr Baker, Mr Bush's campaign manager in 1980, who, as White House chief of staff between 1981 and 1984, was credited with having made Ronald Reagan into the "Teflon" president, on whom no mud stuck.

Mr Bush, some commentators are saying, is the "Velcro" Republican candidate, unable to free himself of the problems of a failing presidency. He is trailing Governor Michael Dukakis, the probable Democratic nominee, by at least 10 points in the polls, a reversal in his fortunes that seemed inconceivable a few weeks ago when it was the Democrats in apparent disarray.

In California, Mr Reagan's home state and Republican territory in presidential elections since 1964, Mr Dukakis leads Mr Bush by 52 per cent to 36 per cent in a current Los Angeles Times newspaper opinion poll. In big industrial states like Ohio, Indiana, and Illinois, blue collar voters whose support for Mr Reagan was critical in 1980 and 1984, are returning to the Democratic fold.

Mr Bush's supporters are saying there is plenty of time for him to recover from his setbacks, that, like baseball hitters, political candidates can slug their way out of a slump in no time at all.

Mr Dukakis, it is argued, has had all the benefits of the favourable publicity attached to his string of primary victories over his rival, the Rev Jesse Jackson, and none of the negative publicity which could come as he seeks to unite behind him a party with divergent views on issues such as the defence budget.

National polls, it is also said, are poor guides to elections which are run state by state. Republican strength in the south, for example, may be underestimated. It has been pointed out that Mr Bush is particularly strong in Texas and Florida.

Certainly Mr Dukakis's healthy lead could well evaporate. This happened to Republican Thomas E. Dewey in 1948. He was well ahead of President Harry Truman in the spring, but the ultimate loser. Both Mr Richard Nixon in 1968 and Mr Jimmy Carter in 1976 lost nearly all their big early leads.

These precedents and logic console the Bush camp in its present troubles. But many believe that the process of recovery might be accelerated if Mr Baker would leave his job as

Continued on Page 18

Grosz takes top job as Kadar is ousted in Hungarian reshuffle

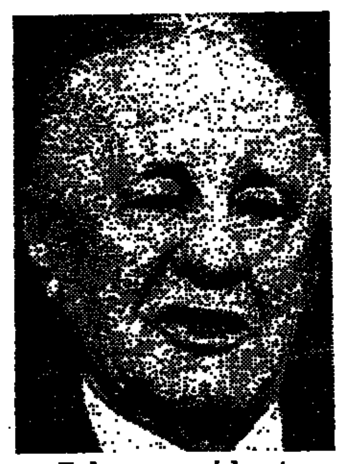
BY LESLIE COLITT IN BUDAPEST

MR JANOS KADAR, Hungary's leader since the aborted 1956 uprising, was removed last night as Party Chief and pushed upstairs to become President of the Central Committee, a new ceremonial post.

Mr Karoly Grosz, 57, succeeded Mr Kadar as General Secretary of the Party. It was the culmination of a meteoric political career which saw his appointment as Prime Minister only last June. Mr Kadar, 75, who launched Hungary's economic reforms in 1968, resisted removal until the weekend but said that he would abide by the Central Committee's decision.

A sweeping rejuvenation of the Central Comittee took place yesterday at the end of a three day special party conference. Elderly supporters of Mr Kadar who were deemed to be conservatives lost their posts in the Politburo and were replaced by a younger reform-minded generation.

They included Mr Imre Pozsgay, the President of People's Patriotic Front, Hungary's leading reformist institution, and Mr Rezso Nyers, the father of Hungary's economic reform in the 1960s, who was dropped from the Politburo in 1972.



Kadar: ceremonial post

The new leadership is committed to the renewal of the Party's badly tarnished reputation and to democratisation of the party and other Hungarian political institutions.

The campaign to oust Mr Kadar was mounted over the weekend by rebellious delegates to the party conference from basic party organisations. In speech after speech they signalled the end of the Kadar era of extreme caution and gradualism in economic and political reforms. The delegates tore into the party's undemocratic and secretive nature, demanding a pluralistic party of a kind sought vainly in Poland in mid-1981 but never achieved within the Warsaw Pact.

On two previous occasions, in late 1986 and again last year, reformist forces in the party attempted to gain Mr Kadar's resignation but were foiled by him. He declared himself indispensable as a guarantor that new reforms would not lurch out of control. This time, however, the attacks on Mr Kadar took unprec-

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Final heave for tottering monument, Page 2; Gorbachev coup in South, Page 18

Gorbachev seeks early follow-up to Moscow talks

BY QUENTIN PEEL IN MOSCOW

MR MIKHAIL GORBACHEV, the Soviet leader, has said he would welcome a further summit meeting with President Ronald Reagan of the US, after their forthcoming talks in Moscow next week, to finalise a 50 per cent cut in strategic nuclear weapons.

He also proposed a series of further 50 per cent cuts in nuclear arsenals until complete nuclear disarmament is reached, rejecting the doctrine of a limited nuclear deterrent as "self-delusion".

In a pre-summit interview with the Washington Post and Newsweek magazine, he said he would propose to Mr Reagan a joint US-Soviet space flight to Mars - saying peaceful projects in space could produce the same scientific advance expected from the US Strategic Defence Initiative, the so-called Star Wars programme and saying it could be "a tremendous breakthrough in science, technology and engineering."

He also spelt out his own hopes for the forthcoming national conference of the Soviet Communist Party, that it should make the Perestroika process of economic and political reform "irreversible", and set new democratic limits on the powers of the Communist Party leadership.

The Soviet leadership was caught between "hectic impatience" to speed up the process of reform, and "conscious resistance" on the part of others "whose narrow selfish interests are incompatible with Perestroika." However, he denied any division within the leadership.

Mr Gorbachev tacitly admitted that agreement on a 50 per cent strategic arms cut cannot be reached in time for the Moscow summit, but that "if an agreement ... comes to be drafted under the present US Administration, I see no reason why President Reagan and I should not sign it. I would certainly welcome that."

He rejected suggestions that it would be possible to agree on the strategic arms cuts without agreement on sea-launched weapons, and SDI.

On future nuclear arms cuts, he said: "Let us first cut them by 50 per cent, maybe then by another 50 per cent, and then once again." Simultaneously, agreement should be reached on the elimination of chemical weapons and reduction of conventional arms in Europe, the whole process involving "other nuclear and non-nuclear states."

On internal politics, he refused to be drawn on the proposals to go before the crucial national Communist Party conference next month - except to agree that he favoured a time limit on the term of office of the general secretary, his own position.

Stewart Fleming in Washington adds: Mr George Shultz, the US Secretary of State, yesterday said of Mr Gorbachev's remarks that "in terms of tone it is quite apparent that he wants to see things move forward and I think that is good."

But he gave a guarded reaction to the proposal which received most of the attention in Washington - the joint Mars mission.

On the arms control talks which will take place at the summit, he rejected suggestions that the US was changing its position on SDI.

Separately there were widespread reports in the US press over the weekend indicating that the Pentagon is fundamentally reassessing the SDI programme in ways which would reduce spending on the controversial programme and slow down moves towards deployment.

Fed policy committee voted for tight fiscal policy

By Anatole Kaletsky in New York

THE MAIN policy-making committee of the US Federal Reserve system voted by a 10-1 margin to tighten monetary policy earlier this spring.

Only Ms Martha Seeger, a Fed governor who has delivered several outspoken public warnings about the danger of a US recession, opposed a move to higher interest rates, according to minutes of the Federal Open Market Committee which were released in Washington on Friday night.

The other members of the policy-making FOMC, including Mr Alan Greenspan, the Fed chairman, all judged that higher interest rates were needed "to prevent the business expansion from gathering excessive and unsustainable momentum that would lead to higher inflation," the minutes said.

Although the minutes related to the FOMC meeting held on March 29, almost two months ago, they will be scrutinised by investors and economists for clues about the committee's thinking at its latest meeting in Washington last week. Minutes of that meeting will not be published until July.

Considering the highly explicit language about inflation in Friday's report and the strong economic indicators which have been published since then, analysts are likely to conclude that the FOMC's latest meeting could only have reinforced the central bank's cautious stance.

In the minutes published last Friday the FOMC noted that growth was already much faster than had been expected after the stockmarket crash in October.

The committee also indicated concern that unemployment had fallen to its lowest level in a decade and capacity utilisation was at its highest rate for eight years. Since these minutes were written in March, unemployment has fallen sharply lower to its lowest level since 1974, while capacity utilisation has continued to rise.

The first signs of whether the Fed wants to raise interest rates still higher could be seen as soon as Thursday this week if the revised figures for the US gross national product show growth in the first quarter to have been considerably faster than the 2.3 per cent initially estimated last month.

Most US economists expect the GNP growth rate to be revised upwards to 3 per cent, with some analysts predicting a figure as high as 4 per cent.

Judgment reserved on Reaganomics, Page 14

Islamic investment groups in Egypt defer deals

BY TONY WALKER IN CAIRO

EGYPT'S big Islamic investment houses have declared a moratorium on transactions until next month amid signs of a crisis in the fast-growing and largely unregulated sector, which has been under heavy official pressure to formalise its activities.

The "big three" investment companies – al Rayan, al Saad and al Hoda Misr – announced in newspaper advertisements at the weekend that they would cease paying out depositors' funds pending public meetings of their investors to review recent developments.

These include a ferocious campaign in the official press apparently aimed at discrediting several of the larger institutions.

The fast-growing Islamic financial sector, which has benefited from the country's strengthening religious trend, is holding up to an estimated E£6bn-8bn ($2.62bn-$3.5bn) in depositors' funds.

The authorities have sought to bring the sector under control by enacting a law that would require these investment houses to reconstitute themselves as joint stock companies offering share certificates in exchange for deposits.

Promulgation of the new investment company law has been delayed repeatedly, however, because of political opposition and drafting difficulties. Prime Minister Atef Sedki said at the weekend that the new law would be presented to parliament soon.

Apart from joint stock stipulation, the new law would requirethe investment houses to submit themselves to official scrutiny, publish annual balance sheets and lodge funds in a government-administered pool to indemnify investors against possible losses.

In the meantime, the Government, which fears the strength of the Islamic sector, has been trying to curb its activities.

Measures have included a travel ban on the principals of a number of the investment companies.

The official press campaign has almost certainly scared small investors and contributed to the present crisis.

One investment house said yesterday that the drastic collective

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American Stores wins bid fight

BY ANATOLE KALETSKY IN NEW YORK

AMERICAN STORES, the third largest US food retailer, yesterday won its two-month battle to take over Lucky Stores of California with a $2.5bn all-cash deal.

It will create the biggest supermarket chain in the US.

The merged group will have annual revenues of $21bn, about 2,000 stores spread across the country and 170,000 employees.

America's biggest supermarket chain at present is Kroger Company, whose revenues were $17.7bn last year.

The takeover of Lucky, which agreed to be acquired for $65 a share, is the latest in a wave of restructurings, takeovers and corporate raids in the US food retailing industry.

As part of yesterday's deal, the Lucky board cancelled an agreement with Gibbons Green Van Amerongen, a New York investment firm which had entered the takeover fray as a white knight last month, after American Stores announced its initial bid of $45 a share.

Gibbons Green had offered to take Lucky private in a leveraged buy-out worth $61 a share.

The wave of restructurings began in 1986 with the record-breaking $4.2bn leveraged buy-out of Safeway Stores.

The high price received by shareholders in the Safeway deal inspired a reassessment of asset values throughout the industry and made other large supermarket groups immediate targets for corporate raiders.

Among the other large groups taken private in the past 18 months have been Supermarkets General and Stop & Shop.

Lucky was one of the first groups to fall victim to this trend, when Mr Asher Edelman, the New York corporate raider, launched a $35-a-share bid in September, 1986.

Although the company managed to divert Mr Edelman's advances by selling peripheral units and distributing $560m to shareholders, it continued to be viewed as a takeover target.

Ironically, one of the reasons given by some analysts for American Stores' determination to acquire Lucky in the wake of last October's stock market crash was the speculation that American, too, could fall victim to takeover specialists and corporate raiders.

● The Lazarus unit of Federated Department Stores, the big US retailing group recently acquired by Campeau of Canada, plans to eliminate about 1,200 jobs, writes Our Financial Staff.

The cuts stem stem partly from the uncertain retail environment in US Midwest.

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Leslie Colitt looks back at the leadership battle in Hungary and profiles Janos Kadar and his successor Karoly Grosz

Final heave for a tottering East European monument

THE MOVE to topple Mr Janos Kadar, Hungary's party leader for more than 31 years and a political monument in Eastern Europe, was more carefully implemented this time after failing twice – in November 1986 and again last summer.

Yesterday, just hours before a special party conference in Budapest elected a new general secretary, central committee and Politburo, a senior party official admitted he was only "98 per cent certain" Mr Kadar would go peacefully.

In his new post as honorary head of the party it is expected that Mr Kadar, who will be 76 on Thursday, will play a largely ceremonial role as an elder statesman of the party. Mr Karoly Grosz took over as party chief.

The Kadar era however came close to ending as ignominiously as it began in October 1956 when Soviet tanks crushed the Hungarian uprising in the smoking ruins of Budapest.

Mr Kadar's rambling closing speech to the party conference yesterday was a pitiful reminder that his accomplishments lay in the distant 1960s. It was then that he began carving out the individual freedoms which today distinguish Hungary from most of Eastern Europe. The stagnation of the once vaunted Hungarian economic reforms launched in 1968 and deepening hostility among Hungarians towards the political system had already tarnished his once lofty reputation.

Yesterday, though, Hungarians were still able to pay tribute to Mr Kadar while making it plain that they had little faith in the party's avowals of a "renewal" and "democratisation" of Hungarian political life.

"He should have left much earlier and we would have loved him even more," a central committee official said.

Mr Kadar's 80-minute performance yesterday was a glaring illustration of what had gone wrong. In disjointed remarks which met with pained expressions among delegates he sought to justify his gradualist approach to reforms. The party and the nation however were convinced that his cautious approach had led them to near disaster.

"Why do we speak only about our mistakes?" he pleaded. "People want to hope."

Each time Mr Kadar spoke of some needed reform he followed it with a cautionary note of the dangers that lurked ahead. It was what one Hungarian party member called the "one-step-forward-one-step-back approach which got us in the hole we are in."

Mr Kadar slapped down demands for a more open party by noting that this would leave the central committee with "little time" for work.

"I find it hard to change my views," he admitted after years in the illegal pre-war Hungarian party.

Time and again he evoked images of rural Hungary 70 years ago replete with bribes of vodka, priests and goats with broken legs. At one point he warned of dire consequences if Hungary's night watchmen failed to turn off the electric lights after work. "Comrades, things cannot go on like this," he said to amazed delegates.

Mr Kadar had bitter words for Mr Grosz, a populist who has a reputation of being power-driven. He spoke of the danger of some "people speaking out of the window" to the crowd.

He also cautioned against "machine-like people" who "always press buttons" according to someone else's views. This time however the old Kadar spell failed to work. Delegates eager for change shook their heads sadly at the spectacle and expressed determination to oust the "Kadarites" from the central committee.

However a party headed by the ambitious Mr Grosz raised many questions, especially among liberal communists who recall his more orthodox past.

In his address to the conference on Saturday Mr Grosz spoke evocatively of combining the "advantages" of a multi-party system within the existing single-party. The Government he said would be "guaranteed" democracy and in the future would take the views of the minority "into consideration". He also assumed "responsibility" as a member of the central committee and politburo for the major part of Hungary's problems, including officially-acknowledged inflation of nearly 15 per cent and a massive $18bn foreign debt.

"Naturally I have to accept the related political consequences," he said.

A senior party official who is close to Mr Grosz predicted that following Mr Kadar's departure the real "struggle over the reform of the political apparatus" would begin.

Another prominent liberal member of the central committee, Mr Ivan Berend, said the three-day conference marked a poor departure from the past but still left a largely "Stalinist" concept of the party. The only assurance that the party did not commit the same mistakes in the future, he said, would be "radical changes" of the existing political structures including "controls" exercised on the party.

Mr Berend, an economic historian who heads the Hungarian Academy of Sciences, drew a parallel between the party's critical situation and that of the Hungarian nobility in 1848 which was forced to abolish its privileges under massive popular pressure.

Karoly Grosz, left, and Janos Kadar at the special party conference at the weekend

Speaking the language of reform

MR KAROLY GROSZ, the successor to Mr Janos Kadar as Hungarian leader, is one of the most outspoken, dynamic and refreshing politicians to rise to prominence in Eastern Europe, which normally breeds timid, grey nodders.

When Mr Grosz, the son of a printer of Swabian origin in Miskolc, became Hungary's Prime Minister at the age of 57 last June, it was apparent that Eastern Europe had gained its first high profile premier.

But Mr Grosz had taken on a monumental task of trying to implement an economic austerity programme which he freely admitted made him one of the most unpopular people in the country. One theory was that he had been handed an impossible task by Mr Kadar to prevent him from succeeding as leader.

Mr Grosz, however, began a media blitz without parallel in post-war Eastern Europe. He learned how to court the media as a party secretary in charge of Hungarian radio and television in the 1960s and in the aptly named Agitation and Propaganda Department of the central committee.

In 1979 Mr Grosz was "exiled" by Mr Kadar to Borsod county as the local first secretary. However, he did so well there that he was called back to Budapest to head the key Budapest party committee in 1984. Less than a year later he was elevated to the politburo.

Mr Grosz's complex personality is reflected in the shifting evaluations of him by Hungarian intellectuals. Not long ago he was regarded as their inherent arch enemy. Today a number have decided he might be a political reformer in disguise.

The changed perception may have something to do with the reformist language Mr Grosz has adopted as Prime Minister. He admitted that earlier he was luke warm on many reforms but changed his mind under the pressure of reality.

Villain to hero and back for communism's pragmatist

THE transformation of Janos Kadar – from one of the most hated men in Hungary in late 1956 to one of the most respected within 20 years, is one of the most remarkable political achievements in post-War Eastern Europe.

His rise to power under Soviet auspices following the abortive Hungarian Uprising of October 1956 was a traumatic period to live down for Mr Kadar and for Hungarians to forget. To this day, the execution of his predecessor Mr Imre Nagy by the Soviet authorities remains a taboo subject for public discussion in Hungary. The uprising itself is still officially called a "counter-revolution".

Seared by the total crushing of their uprising, Hungarians gradually began to respond to Mr Kadar's vision of a Hungary freed of the most repressive instruments of Stalinism. His own experience as a political prisoner under the detested Stalinist leader Matyas Rakosi undoubtedly inspired the most famous Kadar slogan: "Whoever is not against us is with us."

Last Friday though, the phrase was turned against Mr Kadar by one of his own aides, Mr Ferenc Havasi, the liberal head of the Communist Party organisation of Budapest. Mr Havasi noted bitterly that today the same Communist Party was having difficulties dealing with those Hungarians who did not accept its ideas.

An "orthodox Communist with a human face", as one Hungarian described Mr Kadar, he never ceased warning Hungarians of the perils of unchecked political reform. His backing of the market-oriented economic reforms launched in 1968 was wholly pragmatic. Although Mr Kadar had little interest in economic questions he understood that the old command system of central planning had reached the end of its rope.

But the economic reforms were introduced in the same year in which Mr Alexander Dubcek's Prague Spring was extinguished, which meant Moscow doubly suspected them. By 1972 the brakes were pulled on the half-baked reforms and it was not until 1979 that they were relaunched – still in truncated form and at low speed.

"Half a reform is perhaps worse than no reform at all," said the "father" of the economic reforms, Mr Rezso Nyers, this weekend. It explained why the Hungarian economic experiment failed to transform the obsolescent economy. Hungarians however benefited from a relative abundance of goods in the shops and the blossoming of agriculture based on individual incentives for collective farmers.

Mr Kadar, taking a leaf from the Polish communists, permitted a trickle of Hungarians to visit the West in the 1960s, which quickly widened into a stream.

But a decline in real wages since 1979, soaring inflation and an austerity programme introduced last September complete with personal income taxes and Value Added Tax did little for Mr Kadar's domestic popularity.

Interestingly, his reputation abroad – especially in the West – was never higher, partly as a result of visits by Mrs Margaret Thatcher, UK Prime Minister, to Budapest in 1984 and by Mr Kadar's subsequent visit to London.

Soviet troops evacuate Afghan city

By John Elliott in Kabul

SOVIET troops evacuated a major Afghan city for the first time yesterday morning when a convoy of more than 200 armoured vehicles pulled out of Jalalabad, near the Pakistan border, and later drove through the capital of Kabul and on to their homeland.

This was an important symbolic event in the planned evacuation of 115,000 Soviet troops from Afghanistan by next February, following the recent Geneva accord. It is expected to be followed by complete troop withdrawals from other major cities such as Kandahar in the south, where some troop movements have already been reported.

The way is now open for mujahideen guerrillas to try to capture Jalalabad and use it as a capital from which to announce an alternative government to the Kabul-based regime of President Najibullah. However, some foreign diplomats in Kabul believe the mujahideen may prefer to make either Kandahar or the eastern city of Khost the site for such a political centre.

Later this week President Najibullah will try to strengthen his regime by announcing a new Prime Minister and government to coincide with the first sitting of a new National assembly elected last month. Mr Najibullah is expected to form a broad-based administration, including ministers from outside his People's Democratic Party of Afghanistan, who will have the political affiliations and links needed to start peace talks with individual mujahideen commanders.

Mr Najibullah's strategy is believed to be to try to woo these powerful regional commanders who control large areas of the country, so possibly isolating the mujahideen political leaders based in the Pakistan city of Peshawar.

The man tipped to be the new Prime Minister is Mr Mohammed Hasan Sharq, 62, who has held senior posts in various regimes and was a confidante of former President Mohammad Daud in the 1970s and is now Minister for Refugees and a deputy prime minister. Like other front runners for prime minister he is not in the PDPA.

Diplomats in Kabul are divided over whether Jalalabad will come under attack and fall quickly or whether the mujahideen will wait until the troops have left the country before starting what could be a long siege.

Jalalabad, which had 4,500-6,000 Soviet troops until a week ago, is important strategically because it is on a supply route for imported Pakistani provisions.

Claims last weekend by mujahideen commanders in Pakistan that they control the road around Jalalabad have been denied by the Afghan Government.

The mujahideen guerrillas do not have sufficient forces, nor the skill, to mount a conventional military attack on cities when the Soviet troops have moved out. This means they will probably lay sieges, blocking supplies and firing stingers and other missiles at aircraft until the Afghan Government decides the city is not worth defending.

The Afghan army of about 115,000 men – out of total armed forces including paramilitary of an estimated 500,000 – is not nearly as well-equipped, well-disciplined and trained as the Soviet army, although it has good equipment. It is also not as motivated and committed as are the mujahideen guerrillas.

Already the Afghan army has moved out of 15 to 18 district centres near the Pakistan border and a few significant district centres more inland. Foreign diplomats have differing views about the significance of these moves which do however illustrate the willingness of the Najibullah Government to pull its troops out of places it does not consider worth big battles.

Lt Gen Boris Gromov, the Soviet Supreme Commander in Afghanistan, said a week ago that 25 per cent of his forces would leave the country by the time of the Reagan-Gorbachev summit in Moscow on May 29.

Grenade kills two in Soweto

TWO PEOPLE were killed in a hand grenade attack in Soweto, South Africa, yesterday, police and witnesses said. More than 30 people were wounded, Reuter reports from Cape Town.

The attack at South Africa's biggest township came amid an upsurge of weekend violence. Five blacks were killed in shanty town battles in Natal Province and blacks burned a 70-year-old white farmer to death near Johannesburg.

Witnesses said two hand grenades were thrown from behind a house into a crowd of more than 100 people at the open-air rally in Soweto, a sprawling township near Johannesburg.

The rally, in the township's Orlando West area, was held by a conservative Soweto political party called Sofasonke, a Zulu word meaning "We will die together."

The attack happened at about 1 pm said police. The injured, some with serious wounds, were taken to Soweto's Baragwanath hospital. Police were investigating but had so far made no arrests.

The Sofasonke party, led by Mr Ephraim Tshabalala, a former Soweto mayor is opposed by black militants because it took part in state-sponsored black municipal elections.

Saturday's death toll in the townships around the Natal capital of Pietermaritzburg was one of the highest since police reinforcements were sent in last January to stop black-against-black fighting.

Shultz reaffirms opposition to prosecution of Noriega

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

MR GEORGE SHULTZ, US Secretary of State, indicated yesterday that he still favoured a decision not to pursue drug-trafficking charges in the US against General Manuel Noriega, the Panamanian leader, if this helped US efforts to force the general out of office.

Questioned about US policy towards Panama yesterday, following a rare meeting of President Ronald Reagan's national security advisers at the White House on Saturday, Mr Shultz said US policy is to have Gen Noriega "give up his command of the Panamanian Defence Forces and to leave Panama, and to have the forces of democracy there get in charge of that country".

He suggested "a penalty such as leaving his command is a great (penalty)", adding that the US has no ability to extradite Gen Noriega from Panama in order to bring him to court on the drugs charges against him in Florida.

The White House meeting on Saturday followed the return to Washington of Mr Michael Kozak, a State Department official who has been negotiating with the general's representatives. Administration officials said that no deal had yet been struck with Gen Noriega.

It appears that Washington is now reassessing its options towards Panama, hoping in part to get away from media attention on an issue which is divisive for the domestic politics. The US Senate has formally disapproved of any decision to drop the drugs charges against the general and Vice-President George Bush has indicated he takes the same line.

The Administration is being sharply criticised for pursuing efforts to remove Gen Noriega without a clear strategy for accomplishing this and without securing the active support of other Latin American governments.

Israel-Spain jet deal threatened

BY ANDREW WHITLEY IN JERUSALEM

ISRAEL AIRCRAFT Industries is on the verge of losing an important $200m contract to upgrade the Spanish Air Force's elderly Mirage III fighters to Avions Marcel Dassault-Breguet, their French manufacturer.

The state-owned Israeli company – in mounting financial difficulties since cancellation of the Lavi last year, its own sophisticated combat aircraft project – had been banking heavily on winning the Spanish order.

Success would have provided an entry card to undertaking similar upgrading work in other West European countries. What is annoying the Israelis is that even the Spanish admit the bid by IAI was both lower and technologically superior to that of Dassault.

A Spanish diplomat in Tel Aviv acknowledged this week that considerable political pressure had been exercised by Paris for the bid to go in the direction of a fellow European Community country.

Although the rival contenders have not yet been officially informed as to who will handle the work on the two squadrons of Mirage III EE/EB aircraft, Western diplomats feel the contract will almost certainly go to France. An outside possibility is that the task will be split between the two countries.

IAI has built up its upgrading and retro-fit capacity into a major money spinner in recent years, building on its own experience with improving foreign-made military aircraft, including the Mirage III, transformed into the Kfir.

Latin America has been the best market for this line of business, with Colombian Mirages, for one, presently undergoing an Israeli facelift.

What Israel can offer is state-of-the-art avionics and electronic warfare systems for older generation aircraft, extending their operational life by up to 20 years.

Moscow and Cairo improve relations

By Tony Walker in Cairo

EGYPT AND the Soviet Union have agreed to work together to help convene an international Middle East peace conference, in a further sign of improved relations between the two countries.

The announcement came at the end of a visit to Moscow by Dr Esmat Abdel Meguid, Egyptian Foreign Minister, during which he talked with Mr Mikhail Gorbachev, the Soviet leader.

It was the first visit to the Soviet Union by an Egyptian foreign minister since relations soured in the 1970s after the expulsion from Egypt of thousands of Soviet advisers.

Mr Gorbachev was quoted by Tass, the Soviet news agency, as saying after his meeting with Mr Meguid: "The Soviet Union is for developing relations with Egypt in every way. Egypt will find the Soviet Union a good partner."

Mr Meguid's visit is seen by Western officials in Cairo as timely because it allowed him to put the moderate Arab viewpoint on Middle East questions to the Soviet leaders before the Moscow summit this month.

Officials here insist that improvement in Soviet-Egyptian relations will not be at the expense of Cairo's close links with the West, mainly the US.

Tass said Mr Gorbachev told Mr Meguid there could be no peace settlement in the Middle East without the participation of the Palestine Liberation Organisation. He also said: "It is no less important to take into account the interests of the other sides – Syria, Jordan and Israel."

Ethiopia in foods row with Red Cross

BY VICTOR MALLET IN ADDIS ABABA

ETHIOPIA IS engaged in a bitter dispute with the International Committee of Red Cross (ICRC) which has refused to hand over stockpiles of some 40,000 tonnes of food and medicine to Ethiopian agencies.

Ethiopia says some of the food is rotting and has given the ICRC 15 days to take its stocks out of the country which has been interpreted in some quarters as a warning that the supplies will be confiscated.

Ethiopia's Marxist Government has come into conflict with foreign donors trying to provide famine relief, who have criticised the Ethiopian authorities for ordering expatriate aid workers out of war zones in the north of the country.

Foreign relief workers, except for a few United Nations staff, have been barred from the north, but the ICRC refuses to turn its stockpiles and fleet of trucks over to Ethiopian agencies. They say the hungry are at risk because of inadequate food supplies.

The Government, much criticised in the West for human rights abuses, released seven women members of the deposed royal family over the weekend in an attempt to boost its international respectability. They had been detained without trial since the revolution which overthrew Emperor Haile Selassie in 1974.

The seven, including the late emperor's 79-year-old daughter, Princess Tenagne-Work, were re-united with their families on Saturday at prison service headquarters in Addis Ababa, a few days before the celebration in the city of the 25th anniversary of the Organisation of African Unity.

Others freed were the widows of two royal princes and four of the emperor's granddaughters. Three of the grandsons are still in jail.

"We are happy that we are freed," said Princess Tenagne-Work, formerly one of the most influential figures in the imperial court. "We are in good health," she said amid tearful reunions with relatives.

When the OAU summit convenes on Wednesday the main topics of discussion are likely to be Africa's $200bn foreign debt burden, apartheid in South Africa, refugees, and the impact of Acquired Immune Deficiency Syndrome (Aids) on the continent.

Mali's president Moussa Traore has been tipped to succeed President Kenneth Kaunda of Zambia as OAU chairman.

The Ethiopian authorities also announced the launch of a major counter-offensive against the Eritrean People's Liberation Front. They said soldiers and militia were advancing on several fronts after beating back EPLF attempts to take the northern town of Keren.

Two die in West Bank explosion

AN ARAB WOMAN and her son were killed in the West Bank yesterday when their car exploded, apparently after it was hit by a firebomb that missed its target, and a third Palestinian died after a clash with Israeli soldiers, authorities said, AP reports from the West Bank.

It was the deadliest day in nearly three weeks in the occupied territories. The fatalities brought to 194 the number of Palestinians killed in the unrest. Two Israelis also have died.

Three other confrontations left three Arab teenagers wounded by army gunfire and an Israeli was seriously injured by burns suffered in a firebombing, hospital and military officials said.

Ms Shamseh Al Kadah, 65, and her son Mr Mohammed Salah Ghanem, 36, died when their car blew up at the entrance to Shuweika, a village about 100km north west of Jerusalem, hospital officials and witnesses said.

Arab villagers and military sources said the firebomb appeared to have been aimed at an Israeli army jeep travelling in front of the Palestinian-owned vehicle.

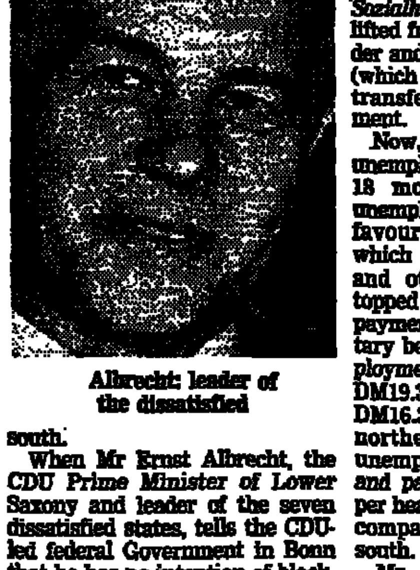
Struggle to take the political long view in Bonn

David Goodhart examines West Germany's debate over taxation and social welfare

WEST GERMAN politicians – unlike businesspeople and bankers – often seem to have a hopelessly short-term outlook. The combination of constant electioneering, the pressure from lobbyists, and coalition government, makes it unusually difficult for governments to take unpopular decisions or provide confident leadership.

Yet, although the current coalition, led by Christian Democrats, has shown this short-term view in acute form, some senior industrialists are acknowledging that, after five years of disappointment, something is starting to move. The reform of taxation, the health service and the postal service may all disappoint the hopes of liberals and de-regulators but, as one of the disappointed put it, "at least they are a beginning, and at least they will all be law quite soon".

Or will they? Right on cue, a mighty interest group – seven out of the eleven Laender (state) governments – is threatening to scupper the reform programme unless it gets its way on a measure designed to close the gap between the declining northern states and the newly prosperous south.



Albrecht: leader of the dissatisfied

When Mr Ernst Albrecht, the CDU Prime Minister of Lower Saxony and leader of the seven dissatisfied states, tells the CDU-led federal Government in Bonn that he has no intention of blocking the tax reform, he is merely pointing out that (in league with the five Social Democrat-run states) he has the power to do so, and might find exercise of that power unavoidable if he does not get his way.

What does he want? Half of the burden of the rising cost of Sozialhilfe (supplementary benefit) lifted from the backs of the Laender and the smaller Communities (which pay 80 per cent of it) and transferred to central government.

Now, when someone has been unemployed for more than about 18 months, qualification for unemployment benefit ceases in favour of a flat-rate payment which (depending on family size and other factors) is usually topped up then with a Sozialhilfe payment. The cost of supplementary benefit crept up with unemployment and, last year, stood at DM19.3bn (£6.09bn) – up from DM16.3bn in 1985. The poorer northern states with higher unemployment are hardest hit and paid out an average DM156 per head on this benefit last year, compared with DM102 in the south.

Mr Albrecht argues that this system has created a vicious circle of decline for the north. Because of higher unemployment, northern states have less money to create an industrial infrastructure to attract new jobs. Also, if the Communities raise the one tax over which they have full discretion (one on company cash flow), they will lose even more jobs to the south.

However, in that some national taxes are to be raised next year so as to reduce the enormous budget deficit, the Government is in no position to be generous, particularly as it is already facing unexpectedly higher costs from the EC and from the central Labour Office responsible for most other forms of unemployment benefit.

Mr Albrecht has suggested that, if the Government did shoulder about DM10bn of the cost, then the states should agree to a reduced share of VAT revenues, which would reduce the net cost to the Government to about DM5bn. Where can that be found? Most easily from increasing national tax rates even further and thus undermining the tax reform.

It is not a pretty choice. If the senior CDU officials who are to meet tomorrow fail to come up with a satisfactory fudge – a failure widely expected – Mr Albrecht's implicit threat to derail the other reforms will start to look more threatening. If, on the other hand, they give in then it may be at the cost of a further dilution of that key tax reform.

There is an additional political difficulty. Mr Albrecht has made such an issue of supplementary benefit that, if he were to fail, the one-seat majority of his CDU-Free Democrat coalition in Lower Saxony would probably disappear in the next state elections. That would probably mean a Social Democrat majority in the Bundesrat (the state governments' upper house of parliament in Bonn) in the run-up to the next federal election.

The chances are that a fudge is still possible but nobody seems to know where it will come from. There is some talk that the Government could take responsibility for such special groups as pensioners and refugees, or perhaps Mr Albrecht can be bought off with some special deal for Lower Saxony.

Mr Lothar Spaeth, the CDU Prime Minister of (southern) Baden Wuerttemberg, has also proposed a new ministry for the regions and a further reform of the financial relationship between rich and poor states. However, although he agrees that about half of the Sozialhilfe costs should be redistributed, he is not keen on the south having to pay. The south already pays about DM2bn a year to the north as part of the inter-state financial balancing law.

It may be time to resurrect the Mediation Committee, the parliamentary committee (in almost permanent session at the beginning of the decade) whose task is to mediate between the Bundestag (the first federal parliamentary chamber where the coalition has an unassailable majority) and the Bundesrat, where thanks to Mr Albrecht it may have no majority at all.

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Four die, 20 hurt in blast as troops comb Punjab

BY EILEEN FRANCES IN NEW DELHI

A BOMB blast killed at least four people and injured 20 yesterday in the northern Indian state of Punjab as paramilitary units trained in counter-insurgency began fanning out to try to halt the rising violence by Sikh extremists.

The bombing, which police blamed on Sikh radicals, occurred in a railroad station in the town of Ludhiana, 80 miles south west of Amritsar. The blast occurred shortly after the weekly Hindu religious serial, the Ramayana, ended on the station's television set. Police Superintendent A. P. Pandey said more than 100 people had gathered to watch the show and the toll would have been considerably higher if the bomb had gone off before the crowd dispersed.

Five other deaths were reported in Punjab, raising the death toll this year to more than 1,150.

It was the second serious bombing attack by the militants since the police siege of the Golden Temple ended on Wednesday. On Friday, a series of bombs went off in the northern Punjab town of Pathankot and on buses leaving the town, killing at least four people.

Over the weekend, the federal government airlifted units of the Assam Rifles, a paramilitary force used extensively to combat guerrilla movements in north eastern India, into Punjab to join local police in combating Sikh extremists.

In Amritsar yesterday, religious rites were resumed at the Golden Temple after a suspension of nearly two weeks. The ceremony began with the blowing of horns and chanting of hymns after Sikh volunteers scrubbed the temple floor with milk to purify it.

The services were suspended on May 10, a day after police launched a 10-day siege of the shrine to drive out Sikh militants. Police later announced the temple would be open to the public today.

March in Taiwan turns into riot

BY BOB KING IN TAIPEI

TAIWAN HAS referred to the public prosecutor nearly 100 people after a riot in Taipei, the capital, on Friday and early Saturday left more than 200 policemen, demonstrators and journalists injured.

The arrests have not revealed so far why an approved demonstration by farmers seeking higher prices for their produce, protection from imports and a comprehensive insurance scheme turned into an attack on government buildings and personnel.

The trouble started when demonstrators tried to storm the gates of parliament.

They attacked riot police ringing the building, threw hundreds of stones which seemed to have been concealed beneath vegetables in trucks used during the march, and attempted to set fire to the central post office.

The riot is considered the worst since 1947, when government troops brought from the mainland to put down an insurrection by native Taiwanese killed thousands of people, so it is claimed.

The national police announced over the weekend that about 90 per cent of those arrested were not farmers.

This raised the possibility of infiltration and agitation by outsiders with ulterior motives.

The farmers themselves had little reason to go on a rampage, because many of their demands are being considered by a sympathetic government headed by a Taiwan-born president, Mr Lee Teng-hui.

The local press yesterday quoted a Taipei police official who speculated that the demonstration might have been infiltrated by communist sympathisers, although no evidence was given to support this.

The rioting may have strengthened the hand of die-hard anti-communist conservatives who are disturbed by liberalisation now under way throughout society.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Mar.'88	Feb.'88	Jan.'88	Mar.'87
US	11,579	11,795	11,318	17,292
UK	38,300	36,125	36,396	18,005
W. Germany	67,300	67,663	70,848	54,022
Japan	78,905	78,261	77,817	53,439
Belgium	7,913	8,180	8,467	5,207
Netherlands	13,696	13,458	13,293	10,486
Italy	27,631	28,539	28,438	23,131
	Feb.'88	Jan.'88	Dec.'87	Feb.'87
France	28,004	31,513	29,634	28,660

Source: IMF

Zambian pursuit kills MNR rebels

ZAMBIA'S Defence Ministry said Zambian soldiers killed 73 guerrillas of the Mozambique National Resistance in a raid into Mozambican territory last week, writes Victor Mallet.

This is Zambia's most serious involvement in the Mozambican civil war. MNR rebels fighting the Mozambican Government have made occasional forays into Zambia and Zimbabwe in recent months.

The Defence Ministry said the army moved into Mozambique after an MNR attack in the Chadiza district of eastern Zambia. Eight villagers were killed by the rebels and cattle were stolen.

Zambian soldiers pursued the attackers across the border and caught up with them 12 miles inside Mozambique's Tete province, destroying two MNR encampments, according to the ministry.

Two held in Cyprus

North Cypriot police arrested two men yesterday after the shooting of two Austrian soldiers of the United Nations Force in Cyprus, Reuter reports from Nicosia.

The semi-official Turkish Cypriot news agency TAK named the two arrested men as relatives of Moustafa Hussein Kaffa, a Turkish Cypriot killed on Saturday in the UN-controlled buffer zone village of Pyla in a shoot-out with an Austrian lieutenant.

Pyla is the only inhabited village in the 110-mile buffer zone separating the Greek Cypriot-controlled south from the self-declared Turkish Republic of North Cyprus. Greek and Turkish Cypriots live side-by-side.

Aquino plea to Spain

President Corazon Aquino said yesterday she had asked Spain's Prime Minister Felipe Gonzalez to help generate European support for a proposed $10bn aid plan for the Philippines, agencies report.

During her weekly radio programme, she also appealed to Filipinos to give the Americans "the benefit of the doubt" on the US-inspired plan, which critics see as an attempt to influence the Government to keep American military bases in the Philippines.

According to Manila newspapers, talks between the US and the Philippines on the future of US military bases are near collapse.

Floods hit SE China

Fifty-seven people were killed and 162 injured as heavy rains triggered flooding in south east China, Reuter reports from Peking.

The official New China News Agency said 120 bridges and 300 homes were destroyed in Fujian province during the 21-hour rainstorm.

The heavy rains flooded roads and damaged 20,000 acres of rice fields across the province's northern counties.

Clashes in S Korea

South Korean riot police clashed with thousands of youths in Kwangju yesterday, firing teargas to prevent anti-government and anti-US rallies, Reuter reports.

The demonstrators, chanting and hurling rocks and petrol bombs, confronted police wearing gas masks and plastic helmets in the south-western city, scene of a bloody civilian uprising eight years ago.

Scores of protesters were arrested but there were no reports of injuries.

Bangladeshi protest

Riot police blocked a march on parliament on Sunday by about 2,000 members of Bangladeshi minority groups protesting at government plans to make Islam the state religion, Reuter reports from Dhaka.

The minorities, including Hindus, Christians and Buddhists, said the change would destroy secularism and could jeopardise communal harmony.

Police later allowed a minority leader to hand a protest memorandum to the Speaker of Parliament.

China steelworks call

China has asked Japan's leading steelmakers to look again into the feasibility of building a $4.5bn integrated steelworks in Shandong province, writes Ian Rodger in Tokyo.

The project was first proposed nearly three years ago, but was not pursued by the Chinese, according to Nippon Steel officials, until fresh contact was made last month.

Mr Kensuke Koga, executive vice-president of Nippon Steel, Japan's largest steelmaker, went to China last weekend to hear the new Chinese proposals. Mr Koga said on Thursday that the plan calls for building an integrated works at Shijiusuo with an annual capacity of 3.5m tonnes of crude steel.

Nicholas Woodsworth in Abidjan reports on an $800m project undertaken by Senegal, Mauritania and Mali

Sahel dam develops economic cracks

ALMOST a quarter of a century ago, before it as learned that in Africa big is not necessarily best, the United Nations development programme conceived a series of projects.

It was hoped that eventually they would lead to the transformation of Africa's major river basins into breadbaskets feeding the continent.

Now, after a long and difficult gestation one of those projects has been born. In March Senegal, Mauritania and Mali jointly held a celebration commissioning the largest engineering project ever undertaken in the Sahel.

Despite inspiring words about the Manantali dam harnessing the Senegal River and ushering in a new age, all is not well with the project.

The three Sahelian governments are bravely refusing, at least officially, to recognise what everyone else can see: what they have produced is not a breadbasket but a very large white elephant.

Costing $834m, the dam is only one component of an ambitious $2bn multi-phase programme intended to solve a number of the area's more pressing problems. Given the shaky economic state of all three countries, many Western observers and financial institutions, including the World Bank, have argued that the programme is folly.

Now even inside Government circles and the three-nation Senegal River Development Organization (OMVS, in abbreviated French) some officials admit that the project may have created more problems than it solved.

The main objective of the OMVS is to attain food self-sufficiency through irrigating and developing 375,000 hectares of fertile land in the Senegal River Basin.

The official target in the half century 800,000 hectares.

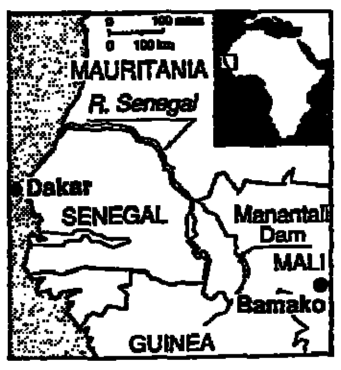
The aim is to avoid massive food deficits, which last year totalled 660,000 tonnes, much of it paid for with hard-earned foreign currency. An effective irrigation system and resulting food surpluses, it is reasoned, would remove the foreign import bill, and stop the southward march of the desert.

It would also improve rural revenues and keep the river basin's population of 2m productively on the land.

Other planned benefits include the provision of 800 KWh of hydroelectric power to tap the region's mineral resouces, and the making of the Senegal river navigable from its mouth to Manantali, 900km upstream in western Mali. This would give landlocked Mali a shipping route to the sea for the first time .

However, the viability of the project is highly questionable from every point of view – economic, environmental, social, and political.

Despite generous terms from the project's backers – principally Saudi Arabia, Kuwait, West Germany and France – debt payment rescheduling is inevitable. West Germany has already transformed a DM70m ($41m) portion of its loan into grant, and more conversions of this type are expected.



From the agricultural point of view it is now evident that the river basin's wealth will remain more potential than real for a long time to come.

While the Manantali dam and its 45,000ha reservoir are now in place, the price of downstream development is proving prohibitive – it is estimated that each hectare of developed land costs between $12,000 to $16,000, an inordinate sum in this cash-strapped region.

Projects preparing land for irrigated cultivation have been underway since 1975, but on average only 2,800ha have been developed each year, and total development now stands at only 34,000ha.

A serious lack of farm credit systems and price incentives to farmers in all three countries make unrealistic the 1990 target of 100,000ha.

In the past river basin farmers harvested traditional crops once a year on lands flooded annually during the rainy season. A year-round flow of water from the dam was to have provided conditions for two annual crops of high-yielding rice.

But given the relatively low profits accruing from irrigated agriculture's capital and labour intensive requirements, many farmers have shown a preference to stick to traditional lower-yield methods.

In 1986 50 per cent of the irrigated land in the upper basin was not even used.

The OMVS has now been forced to admit that both financially and technologically, local farmers are not ready for the changes the programme requires of them; a recent OMVS High Commission decision to produce an artificial flood by partially draining the Manantali dam every year – thereby allowing farmers to revert to traditional methods – largely defeats the dam's agricultural purposes.

Land tenure questions pose other major problems. While the dam itself has displaced only 12,000 villagers, small farmers throughout the project area have found themselves in conflict with Government bodies which would like to see larger, more cost-effective operations.

Investment by outsiders and absentee landlords has caused caused considerable social disruption.

In Mauritania, for example, wealthier "white" Moors from the north have bought their way into river basin land traditionally farmed by the negroid Toucouleur ethnic group.

There are now reports that frustrated Toucouleurs are sabotaging irrigation developments on lands they formerly owned.

It has been convincingly argued that a far smaller irrigation project on the Senegal River would have given far larger net returns.

However, although the Manantali dam project makes little sense in agro-economic terms, its existence does have a certain logic.

Through it, its Saudi and Kuwaiti backers have been able to make a political gesture to fellow Moslems in Africa. On top of that, West German and French consortiums have, on the strength of those Arab petrodollars, done something to revive their flagging construction industries

Not least, the governments of Senegal, Mauritania and Mali have gained the prestige of hosting such a a high-tech project.

The only potential losers, in fact, are the inhabitants of the Western Sahel.

Siemens megabit chips in production

UK NEWS

TORIES SEEK TO SOFTEN INDIVIDUALIST MESSAGE OF THATCHERISM

Hurd tells rich to take social responsibility

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE MILLIONS of individuals who have prospered financially under the Conservatives have an active duty to help improve the overall quality of their communities, Mr Douglas Hurd, the Home Secretary, said yesterday.

His remarks follow Mrs Thatcher's weekend speech to the Church of Scotland general assembly in Edinburgh, during which she defended the Government's wealth-creating policies and set out the spiritual beliefs which underline her political philosophy.

Mr Hurd, who was speaking on London Weekend Television's "Weekend World", repeated a theme which he and some other senior ministers have pursued in recent months.

He stressed that the individualism encouraged by the Government should not stimulate personal greed but should oblige the better-off to embrace wider social responsibilities.

The theme reflects some ministerial concern that the Government is seen by the electorate as increasingly hard-hearted towards the less well-off and that it is pursuing policies which are deepening divisions within society.

Government critics claim the message forms part of a longer-term strategy to increasingly transfer to individuals the traditional responsibilities of the welfare state.

Douglas Hurd: theme of "active citizens" will be stressed

Mrs Thatcher: "love of money for its own sake is wrong"

An Observer-Harris Research Centre opinion poll published yesterday showed that although 44 per cent now thought people had more freedom and that 48 per cent were richer than 10 years ago, 61 per cent believed people are more selfish and 48 per cent believed people were more unhappy.

Mr Hurd yesterday emphasised that the Government's twin objectives of enhanced freedom and individual responsibility had to work together.

In its early years, the Government had been forced to place much of the emphasis on personal freedom and the creation of wealth because incentives had been destroyed and the nation's economy had been going "dramatically downhill."

The Government, he claimed, had been successful in reviving the economy and now it was "time to to tug the other string" and to say to those people who were doing well under Thatcherism that there was a community to which they belonged and towards which they had responsibilities.

Mr Hurd said that, during the Government's third term, the theme of the "active citizen", not compelled by law but motivated by a wish to help, would be increasingly emphasised.

He added :"We do now need to emphasise more than we have that individualism is not a narrow or selfish thing. The reason we put stress on individual achievement is not just so we can pile up individual masses of wealth but so that the community as a whole is a more decent place."

In her Edinburgh speech, Mrs Thatcher said it was not the creation of wealth which was wrong but "love of money its own sake". She said the "spiritual dimension" came in when deciding how the wealth was spent.

She underlined the state's obligation to provide a range of fundamental services to support the sick and the disabled but stressed that Government intervention should never become so great that it removed personal responsibility.

She said that any set of social and economic arrangements which was not founded on the acceptance of personal responsibility would "do nothing but harm."

Unions told to negotiate flexible work time

By Phillip Bassett

EMPLOYERS' NEGOTIATORS should abandon outmoded ideas about the shorter working week, and instead press for more flexible working arrangements based on annual working time, according to a right-wing trade union policy group.

Union negotiators must take into account what are now clear employee preferences in patterns of work, says the Jim Conway Foundation.

In a paper given to a weekend conference in San Francisco of the Society for Work Options, the foundation gave some indication of the results of its three-year project on working time options, funded by the Leverhulme Trust. Publication of the full details is expected in September.

Mr Andy Wood, the foundation's director, and Mr Paul Rathkey, the study's authors, told the conference that the potential for greater employee choice clearly existed and that employees should be listened to more often.

Progress on the shorter working week had been slow, and appeared to be dragging.

Scepticism clearly existed about the extent of workforce flexibility, but one area of flexibility – multi-skilling – provided opportunities for renegotiating terms and conditions.

Union negotiators should blend employees' preferences with safeguards

They said: "An examination of means of shortening the working year and the working life might prove more profitable and more attractive to employees than an attempt to wring a further hour off the week out of employers."

Pension proposal likely to anger employers

BY ERIC SHORT, PENSIONS CORRESPONDENT

EMPLOYERS would be forced to provide certificates for employees taking out personal pensions, under proposals being considered by the Inland Revenue. Such a move would be likely to draw strong criticism.

Their opposition to the move – which is apparently being made without consulting the Confederation of British Industry – arises partly from the costs and bureaucracy it would involve. But it is also because the Government appears to have reneged on a commitment not to involve employers in any personal pension arrangements of employees.

It is understood that the Revenue has been holding talks with the Department of Health and Social Security – which made the commitment – on the feasibility of making employers provide the certificates.

The Revenue regards them as essential to the control of the personal pensions system.

However, the Confederation of British Industry, the main employers' organisation, seemed unaware of the moves.

Mr Esmond Lindop, the organisation's deputy director of employment affairs, confirmed that its policy was still that of minimum employers' involvement in transactions between employees and pension providers.

Background, Page 6

Government faces rebellion in Lords over community charge

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE GOVERNMENT today faces the possibility of a highly damaging defeat in the House of Lords over its plans to introduce a community charge, or poll tax to replace the present rating (property tax) system.

Peers will debate an amendment tabled by Lord Chelwood which would require the Government to produce regulations relating the poll tax to people's ability to pay. The charge is scheduled for introduction in 1990.

Lord Chelwood, the former Conservative member of parliament, Sir Tufton Beamish, yesterday reiterated his belief that the Government's proposals were "immensely unpopular and seriously faulted." He predicted a majority in favour of his amendment in the House of Lords.

Despite the unpredictable outcome of votes in the Lords, which has recently inflicted two defeats on the Government's Education Bill, ministers yesterday appeared confident that the amendment would be defeated.

A senior minister recalled a meeting last week between Mrs Margaret Thatcher, Prime Minister and 170 peers, at which she emphasised the Government's election manifesto commitment to the introduction of the charge. He believed it had been sufficiently effective to ensure passage of the government's proposals. He acknowledged, however, that the vote could be close.

Last month, the Government's normal House of Commons majority of around 100 was cut by three-quarters when an amendment relating to the community charge to people's ability to pay was debated.

A victory for the Chelwood amendment would be severely embarrassing for Mrs Thatcher, who regards the plan for community charges as the centrepiece of this Government's legislative programme.

If the amendment is passed, however, it will not necessarily proceed further. Any major changes made by the Lords to legislation approved by the Commons could be regarded as a breach of privilege and ruled out of order.

Ministers have already made it clear that if the amendment was permitted and then returned as part of the proposed legislation to the Commons, the Government would seek to reverse it.

Lord Chelwood said yesterday his "very gentle amendment" was not designed radically to alter the legislation but to seek reconsideration of the proposals by the Government.

He said he expected strong support from peers who had no party affiliation and from Tory peers who did not believe that the community charge, as currently proposed, would fulfil the Government's pledge to replace the rates with a fairer system.

Lord Hailsham, the former Lord Chancellor, yesterday forecast a Government victory and claimed that Lord Chelwood's "wrecking" amendment was "unconstitutional and humbug."

Unions likely to reject official plan to help long-term jobless

BY PHILIP BASSETT, LABOUR EDITOR

THE GOVERNMENT'S new proposals on its £1.4bn training scheme for the long-term adult unemployed seem unlikely to be sufficient to prevent the TUC voting against supporting the programme this week.

If this is the case, ministers are likely to change the entire basis of the Manpower Services Commission, which would mean unions and others losing their involvement with it.

Mr Norman Fowler, Employment Secretary, will today send to the TUC his response to their request for new assurances about the operation of the Government's Employment Training (ET) scheme, due to come into force in September.

Ministers gauge that there are enough unions implacably opposed to the scheme to win a vote against it.

In an effort to try to persuade the unions to meet it half-way, however, the Government will offer a number of proposals to make the scheme more attractive to the unemployed and to the unions.

Mr Fowler insisted again yesterday in a signed newspaper article that the Government would implement the proposals unanimously agreed by the Manpower Services Commission, including its three TUC members. But today's letter is expected to include a number of elements which ministers believe may take hold with moderate union opinion.

It is doubtful, however, whether such changes will be enough to persuade the pivotal GMB general union, which is bound by a tight policy only to agree to the scheme if all the TUC's points are met.

The Government's likely changes will not do that – ministers are insistent that any offered changes must not damage the scheme in any way.

The TUC is anxious to maintain a presence on the MSC as the one surviving mechanism by which it has material political power, but TUC leaders recognise that whatever the Government's proposals, a vote against the scheme now looks likely.

If that happened, then the scheme would go ahead, but with fewer places offered to the long-term unemployed, and ministers would blame the unions.

More generally, if the unions reject the ET programme, which would make up more than half the MSC's budget, ministers would see little point in continuing with the tripartite arrangement of the MSC.

The Government would then bring forward legislation changing the entire basis of the MSC, and scrapping its governing Commission which contains both union and employers' leaders.

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Stock market 'is undervaluing commercial TV'

BY RAYMOND SNODDY

THE STOCK MARKET is undervaluing commercial television because of political uncertainty about its future, according to a Kleinwort Grieveson Securities report on ITV companies.

Kleinwort calculated a "pessimistic" trading valuation of £940m for the industry, almost 8 per cent more than the current stock market valuation of £875m.

To establish a new floor for ITV share prices, the Kleinwort study based its valuation on the most pessimistic assumptions.

One was that all 16 commercial television companies would lose their franchises when current agreements expired at the end of 1992. The other was that they would face so much competition or tax that they would make no further profit.

That was the basis of the Kleinwort estimate of £940m. It excluded Granada Television, part of Granada Group. Half of the estimate came from the five years of near-monopoly of television advertising that remain. The rest came from cash, subsidiaries, studios and the "hidden assets" of programme libraries and shares in Independent Television News and TV Times.

Miss Bronwen Maddox, a Kleinwort broadcasting analyst, explained: "This is a trading valuation based on the income these assets generate, not a break-up valuation, and it is based on a very pessimistic view of the future."

She said the Government's plan for broadcasting legislation in 1989 might not be the apocalypse that some investors feared.

"It will bring competition, but may open new sources of revenue such as sponsorship," she said. "It may institute tendering for franchises, but to do that may relax ownership restrictions."

The stockbrokers value the programme libraries of the ITV companies at £50m, with £32m of that contributed by the big five programme production companies. Kleinwort said the value of the big five's libraries was "probably very understated."

The shares of ITV companies are at a discount of 25 to 40 per cent to the market. Kleinwort recommends buying, or at least holding, the shares of all 16 commercial television companies including TV-am, the breakfast station.

London Weekend Television, the London Weekend franchise holder, is rated a strong buy, as is Television South. Anglia Television, HTV, Scottish Television, Thames Television, Tyne Tees and Ulster are all rated buys.

"Although the shortlist of the franchise life is a source of much concern to the stock market, the valuations demonstrate that five years of a near-monopoly, even on very conservative growth assumptions, is an asset worth having," Miss Maddox concluded.

Shell Expro revives plans for oil and gas fields

By Maurice Samuelson

THE SHELL-ESSO North Sea partnership, Shell Expro, is preparing to invest several hundred million pounds to develop a group of North Sea oil and gas fields on which work was halted three years ago when the price of oil fell below $10 a barrel.

The eight fields, originally known as the Gannet cluster, will start producing by the mid-1990s, subject to government approval.

The company said in Aberdeen yesterday: "Drilling tests and appraisals carried out so far have gone very well."

The move has been prompted by advances in oilfield technology and by a more stable international oil price.

The scope for savings has been shown by the 30 per cent reduction Shell Expro has achieved since 1986 in the Tern and Eider field projects, originally estimated to cost £910m and £640m respectively.

Developing the Gannet cluster was originally expected to cost about £2.5bn.

Changes in technology have cut that drastically but the company says it will still involve "a huge investment of hundreds of millions of pounds."

The decision to proceed with the cluster was disclosed in an internal letter to company departments in Aberdeen, London and Lowestoft.

In the letter, Mr Peter Everett, managing director, said: "Although further studies are still ongoing to firm up development concepts, successful recent drilling results and the application of cost-saving technology adequately demonstrate that these projects will be viable."

Two of the fields, Penguin and Pelican, are in the northern North Sea. The remaining six, in the central sector, will be known as Gannet A and B, Guillemot A and B, Puffin and Skua.

Although the fields are small compared with others such as Forties, Shell Expro says they are too big to be described as marginal.

AIDS victims 'may be refused NHS dentistry'

AIDS VICTIMS could soon be refused National Health dental care if the Government fails to fund special safety measures, dentists said yesterday.

The General Dental Practitioners Association, representing more than 3,000 British dentists, said rigorous procedures were already being used to prevent transmission of AIDS and Hepatitis B between patients and staff but more was needed.

Mr Paul Carlin, the association's vice-chairman, speaking at its annual conference in Manchester, said: "We cannot shirk our responsibilities to our other patients and staff and their families who need further reassurance about their safety.

"The distribution of the spread of viruses varies widely throughout the country, and the inability of all dental practitioners to afford the necessary measures means that high-risk patients are being targeted on to 'sympathetic' practices which are having to shoulder a tremendous burden."

Mr Carlin stressed that the association would continue to encourage all dentists to provide treatment to all patients, but urged the Government to provide the cash for the necessary safety procedures to be implemented.

Kieran Cooke examines some cautious moves towards new initiatives

Ironies in Ulster's hint of progress

THE KILLING in Northern Ireland goes on. On Saturday, a British soldier was blown up by an IRA bomb. The previous weekend, three people died after gunmen attacked a Belfast bar frequented by Roman Catholics.

So far this year, 28 civilians and members of the security forces have been killed. The bitter irony is that, alongside the bombs and bullets, there are at last some real signs of political progress in Northern Ireland. All but a violent minority now realise that some peaceful breakthrough must be made.

Over the past few months a chain of discussions has been taking place. Mr Tom King, the Northern Ireland Secretary, has been talking to Mr John Hume, leader of the mainly Roman Catholic Social and Democratic Labour Party.

Meanwhile, Mr Hume has had several meetings with Mr Gerry Adams, the head of Sinn Fein, the IRA's political wing. Mr King has also had discussions with Mr James Molyneaux, the Official Unionist leader, and Mr Ian Paisley, the leader of the Democratic Unionist Party.

Now, Mr Molyneaux has clearly hinted at a meeting with another key player in the Northern Ireland political imbroglio, Mr Charles Haughey, the Prime Minister of the Irish Republic.


James Molyneaux: may talk to Charles Haughey


John Hume: evidence of a great deal of realism

While there has been considerable Unionist criticism of the Hume-Adams talks, Northern Ireland officials have been careful to emphasise that they respect Mr Hume's considerable political judgment. Even Mr Paisley, that mighty old oratorical battleship, has ceased to create waves in these new, calmer political times.

No one is suggesting that any startling developments are going to happen in the short term. In Northern Ireland politics, one talks not of months or years but of generations. However, according to Mr Hume, there is a different atmosphere. He said there was a great deal of realism around in Northern Ireland at the moment.

Mr King's talks are concerned with on the one hand moving towards some form of devolved government in Northern Ireland and on the other, allaying Unionist fears about and opposition to the 1985 Anglo-Irish Agreement.

Mr King's position is that the agreement is a fact and will stay. Adamant Unionist opposition seems to have modified, possibly as a result of what is now widely perceived as a failed anti-agreement campaign. "You are seeing the signs of people starting to get out of their trenches," Mr King said.

Perhaps the most significant development recently has been the move to centre stage by Mr Molyneaux. Never the most charismatic of politicans, Mr Molyneaux has surprised everyone with his conciliatory gestures towards Mr Haughey, a man who has until now been deeply mistrusted by the Unionists. "I do not rule out that it may be necessary and desirable to talk to Mr Haughey," said Mr Molyneaux.

Last Saturday, Mr Haughey welcomed Mr Molyneaux's "positive" approach, saying no opportunity should be lost in attempting to bring peace to Northern Ireland. It is hardly heady stuff: there will be no summits and sudden breakthroughs.

However, all politicians north and south of the border realise that these are important times. The workings of the Anglo-Irish Agreement are due to be reviewed in November. There is new room for manoeuvre and discussion. That, in Northern Ireland, is progress.

Privatised electricity scheme 'utopian'

By Maurice Samuelson

DEEP scepticism about the Government's plan to privatise electricity supply appears in a report today from FT Business Information.

Mr Andrew Holmes, the author, challenges many of the assumptions on which Mr Cecil Parkinson, Energy Secretary, proposes to restructure the industry. Mr Holmes says many of them were "utopian."

Ministers have made much of the "needs of the consumer," he says. Yet those have been met more fully in the UK than in most countries. The Government's white paper on reform of electricity supply does little to explain how privatisation would satisfy them further.

"If electricity came in different colours, sizes, shapes and smells, it might be different," Mr Holmes writes. He feels that "the most overtly utopian" of the Government's proposals was that the industry should be freed from its interference.

"An electricity system free from government interference is difficult to imagine, let alone create," he says.

He calls the notion that competition would make electricity supply more efficient "an interesting hypothesis, but no more than that." No proof can be derived from other countries, because competition in electricity supply has never been considered of prime importance anywhere.

Under the system in the white paper, obligation to supply would be transferred from the generating authority to the 12 area distribution boards, which would be be privatised separately.

Mr Holmes wonders if an assurance from Mr Parkinson will be enough to stop the boards turning into local monopolies. The assurance was that they would not be allowed to generate more than 12 per cent to 15 per cent of their needs from their own sources.

Mr Holmes predicts that the area boards will become to all intents and purposes integrated utilities. "There is little or nothing the Government can do to prevent this," he says. "Competition cannot be regulated into existence."

Mr Holmes believes that employees in the industry will find it hard to adapt to the new commercial environment. He claims that only a minority of area board chairmen are eager for privatisation.

"For most of the people who run the industry, the transition to a 'competitive', open electricity market is not going to be easy," Mr Holmes writes.

Electricity in Europe, Opening the Market, by Andrew Holmes, FTBI, 7th Floor, 50-64 Broadway, London SW1H ODB. £155 in UK; $264 or £165 overseas.

Slower growth and lower pound forecast

BY RALPH ATKINS

A SHARP drop in Britain's economic growth rate and a fall in the value of the pound by the end of the decade are forecast in a report published today.

Staniland Hall Associates, the business forecasting company, predicts the economy will grow by 2.8 per cent this year, but by only 0.9 per cent in 1989. Unemployment is expected to rise from 2.5m this year to 2.6m in 1989.

The company believes the current strength of sterling will weaken by the end of the year. It predicts that the pound will fall against the dollar, reaching $1.8 in the fourth quarter of 1988 and $1.7 at the end of 1989.

Against the D-Mark, sterling is expected to fall to DM2.7 by the fourth quarter of 1989, compared with its current level of about DM3.17.

The report warns of strong underlying inflationary pressures in the UK economy, although in the near term the outlook for prices is still relatively good. Retail prices are forecast as rising at an annual rate of about 4 per cent in 1988, edging up to 4.5 per cent in 1989.

However, it says the Government's policy of large tax cuts announced in the budget, and its tightening of monetary policy by allowing the pound to rise above a DM3 ceiling mean the balance of economic growth will be "much less favourable."

Much slower export growth will lead to a deterioration in Britain's trade deficit.

Staniland Hall predicts that the proportion of income saved by consumers will rise this year after falling in 1987 to the lowest level for 28 years. Consumer spending is predicted as rising by 4 per cent this year and by 1.5 per cent in 1989.

● A separate forecast for the UK economy, released today by the Society of Business Economists' Forecasting Group, also predicts a slowdown in growth. Gross domestic product is expected to rise by 3.3 per cent this year and 2.2 per cent in 1989.

However, Mr David Kern, chairman of the group, said Britain will continue to outperform most of western Europe, and remain above average among Organisation for Economic Co-operation and Development countries.

Retail prices are expected to rise by 3.9 per cent in 1988, and by 5.1 per cent a year in both 1989 and 1990.

Economic Indicators. Staniland Hall Associates. PO Box 643, Slough, SL1 2DF. £95. Annual subscription £235.

Strong sterling puts pinch on shoemakers

BY ALICE RAWSTHORN

THE FOOTWEAR industry is concerned about soaring imports and faltering exports as it prepares for autumn production, traditionally the busiest period of its year.

Since last summer, the shoe manufacturers have suffered from the strength of sterling, which has fuelled a surge in imports from the Far East. So far, the industry has been sheltered from the full effect of adverse exchange rates by buoyant exports and by the length of time it takes for retailers to react to currency changes.

But the footwear companies are now fully exposed to the decline of the dollar. Moreover, the strength of sterling is making it increasingly difficult for them to compete in overseas markets.

Mr Michael Fielden, director of the British Footwear Manufacturers Federation, says there is now "great anxiety" in the industry as it waits to see how competitive trading conditions will be in the coming season.

In 1987, the shoe companies saw imports rise by 15 per cent and output fall by 7 per cent. That trend has accelerated in the opening months of this year when imports increased by 21 per cent and output fell further.

Yet last year the industry benefited from healthy growth in exports within the men's shoe sector, and from the problems of the once powerful Italian manufacturers which were hit by the strength of the lira.

This year, there are already signs that the rise of the pound is taking its toll on exports – which fell by 7 per cent in January and February – and that the Italians are recovering.

Mr Alan Linton, chief executive of Lambert Howarth, one of the largest manufacturers, says that the industry's difficulties are becoming "worse, rather than better" and that 1988 seems destined to be "a very difficult year."

The industry, which is concentrated in the north-west and the east midlands, has already been forced to resort to cost-cutting measures, such as short-time working and job losses. Several footwear companies have been forced to close.

The consensus in the industry is that such troubles will worsen. The BFMF has persuaded the Government to lobby the European Commission for the introduction of quotas on imports from Taiwan. However, unless trading conditions improve, no one doubts that more jobs will be lost and more companies will close.

Life companies are poised to win key changes in new regulations, writes Eric Short

Passing the parcel on pension certificates

LIFE companies are on the verge of securing considerable concessions from the Inland Revenue over the rules for managing the new-style personal pensions when they become operational on July 1.

Under the Government's new pension environment, an employee can opt out of his or her company scheme and/or the State Earnings-Related Pension Scheme (Serps) and make personal pension arrangements through a life company or other provider.

The employee taking a personal pension will qualify for tax relief in full on contributions to the contracted-out, appropriate personal pension, and up to 17½ per cent of earnings (higher levels from age 50) on personal pensions not contracted-out of Serps.

However, the draft rules from the Revenue on the operation of personal pensions, contained in memorandum IR76, which were designed to monitor eligibility and contribution limits were regarded as unworkable by the life companies.

The Revenue's main concerns were that since employees get basic-rate tax credited automatically for both styles of personal pensions, it had no means of checking that employees were eligible for personal pensions or whether they were staying within the contribution limits.

This latter contribution control is made more difficult because employees can take out as many non-contracted-out personal pensions with different providers as they wish.

So the Revenue's memorandum proposed that before any personal pension contract was issued, life companies had to obtain a certificate from the employer attesting that the individual was an employee and that he or she was not a member of any company pension arrangement, other than for death, in-service or disability benefits.

Employees would have had to provide evidence of earnings and each year the provider would have been required to contact them to monitor any changes in the earnings position before proceeding.

The latter condition would also have applied to the self-employed, since the new-style personal pensions are replacing the existing retirement annuity contracts, through which the self-employed have made their pension provision for more than three decades.

Life companies were extremely worried about the rules, which they claimed were unworkable, particularly in regard to obtaining information from employers.

They are already experiencing difficulty in finding the required information when an employee wishes to make his own top-up arrangements through a Free-Standing Additional Voluntary Contribution (FSAVC).

Mr Alan Ainsworth, executive director of Fidelity Investment Services, claimed that the original rules reflected the "Inland Revenue's obsession for misuse of tax reliefs".

The pensions committee of the Association of British Insurers (ABI), led by Mr Alistair Neill, assistant general manager (pensions) of Scottish Widows' Fund, has been negotiating strongly with the Revenue, apparently with considerable success.

The final rules from the Revenue on the operation of personal pensions, due to be published in a week or two, are expected to show:

● That the self-employed can continue the existing system of self-certification. Since for the self-employed tax relief is credited in the final tax assessment, the Revenue will confirm that the life company is not required to obtain evidence of earnings.

● Life companies and other providers can issue appropriate personal pensions that are contracted-out of Serps, without any evidence. Since the contributions for such contracts are collected by the Department of Health and Social Security, the evidence required is provided automatically by the system.

● The Revenue still requires evidence from the employer when an employee applies for a personal pension that is not contracted-out of Serps. However, the life company or other provider can accept the application on a provisional basis until the certificate is produced. The Revenue is considering whether the provisional period should be 60 or 90 days.

If the certificate is not received within the period, then the provider can accept the gross contribution and the employee reclaim the tax relief.

However, the Revenue is discussing with the DHSS the feasibility of compelling employers to provide certificates.

Mr Chris Hatry, pension director at Legal and General, said reluctantly that some duty should be imposed on employers.

The latter idea has taken the Confederation of British Industry by surprise, even though Mr Neill sits on its pension committee.

Mr Esmond Lindop, deputy director of employment affairs at the CBI, said he was completely unaware of such moves and would not comment pending clarification of the position.

However, he confirmed that the general attitude of the CBI was that personal pensions were a transaction between the employee and the provider and that the employer should not be involved.

Some employers currently charge a fee for providing the required certificate for FSAVCs, reflecting the cost of producing the document.

Finally, the Revenue is likely to take on the role of monitoring contribution levels on personal pensions.

Providers would furnish details once a year, possibly on tape that can be fed into the Revenue's computer.

However, the problem remains: how overpayments can be refunded when there is more than one provider.

NEI will bid for Indian contracts despite setbacks

BY PETER MONTAGNON, WORLD TRADE EDITOR

NORTHERN ENGINEERING Industries, the leading UK power plant group, hopes to win power station contracts in India in spite of difficulties with the 1,000MW station at Rihand, Uttar Pradesh, which is nearing completion.

"We're not abandoning the Indian market," Mr Graeme Anderson, deputy chairman of NEI, explained in an interview. The company believed it would have backing and encouragement from the British Government for a bid to build a further power station under India's next five-year plan. India plans then to install a further 35,000MW of generating capacity.

NEI's aspirations in India suffered a setback last year when its rival, GEC Turbine Generators, was selected in Whitehall as the lead UK contractor for the second phase of the Rihand project.

GEC is due to submit its bid for this phase to the Indian authorities this month. It faces competition from Siemens of West Germany in partnership with Bharat Heavy Electricals.

Mr Anderson said the difficulties that had dogged the Rihand project in its early stages and had led to the selection of GEC were over. His company's relations with Whitehall and the Indian authorities had improved.

"It took us a long time to get our arms round the [Rihand] project, but the progress we have made in the last two years has been fully acknowledged by the Indians," he said.

Reasons for the early difficulties with the contract included delays on civil engineering works for which NEI was not responsible, Mr Anderson explained. He said that because of the delays NEI had lodged "substantial" claims for reimbursement of time and cost from the National Thermal Power Corporation, its Indian client.

It would insist in future bids for Indian power stations on being responsible for civil works, he said.

The first unit at Rihand was synchronised with the Indian grid at the end of March, 66 months after the original contract was signed. That was six months less than it took to build Drax B in North Yorkshire, the largest coal-fired station in Europe.

Service industry expects higher overseas earnings

BY ERIC SHORT

MOST BRITISH service industries expect to increase their overseas earnings this year, according to the latest survey from the British Invisible Exports Council.

However, the council warns that the situation is more volatile than last year and that the predictions of many service industries are made against the background of uncertainty after the October stock market crash.

Thus the industries providing the most optimistic predictions are those less affected by the crash – couriers and express services, forecasting a 25 per cent rise, followed by shipbroking and educational services, each forecasting a 20 per cent increase.

Investment management expects to show positive growth. However, the industry faces increased Japanese competition and is finding UK and EC legislation more restrictive.

Commercial banking expects a 7 per cent improvement, in spite of the unease that followed the October crash and increasing Japanese competition.

Tourism is looking for a 9 per cent rise in earnings.

The insurance industry, one of the principal foreign earners, presents a mixed forecast. Insurance companies expect increases in the order of 5-10 per cent. Lloyd's non-marine business anticipates 5 per cent growth, but the aviation division expects a decline of 10-15 per cent in earnings, while little or no growth is expected by insurance brokers.

Consulting engineering also expects a decline in earnings of around 5 per cent.

Nick Garnett reports on the growth of co-operation in heavy industry

Deals engineered with the Japanese

THE DEAL announced last week in which Northern Engineering Industries will manufacture a range of Mitsubishi switchgear under licence is a further example of growing co-operation between Japanese and British companies in heavy and medium engineering.

In the past two years a number of developments have increased Japanese penetration of heavy manufacturing in Britain, sometimes, although not always, to the advantage of UK companies.

The trend has affected a number of sectors, from machine tools, lift trucks, construction machinery and bearings to diesel engines and small, so-called mini-tractors.

The method of co-operation takes various forms, including the establishment of Japanese production plants in the UK that use a substantial amount of components from within the European Community, Japanese acquisitions of British companies and a series of joint manufacturing ventures.

Joint ventures sometimes involve British companies rebadging Japanese-made equipment, often on a reciprocal basis in which the Japanese take British-made equipment.

In other cases, British companies make Japanese-designed equipment under licence, and there are at least two examples where UK companies are manufacturing their own-designed products for a Japanese partner.

Such arrangements have been part of the engineering scene for a long time.

NSK of Japan has had a ball bearing plant in County Durham since the 1970s.

Ford has been taking Shibaura mini-tractors from ISM of Japan for seven years, adding wheels and other components at its Basildon plant and selling them as Fords.

Bridgeport, the Leicester machine tool company, has been manufacturing Yasuda-designed machining centres for the past five years, largely with EC components.

In the past two years, Japanese involvement has increased noticeably.

Yamazaki opened an impressive machine tool production facility in Worcester last year and Komatsu is producing hydraulic excavators at its Birtley plant in the north-east, opened in 1986, at the rate of 120 a month.

Japanese presence in the British bearing industry was stepped up earlier this year with the purchase by Minebea of Rose Bearings, a former APV subsidiary manufacturing rod end and spherical bearings in Lincolnshire.

Grantham-based Aveling Barford has just started selling under its own name three models of Kawasaki wheel loaders of 2.4 to 4.5 cu metres capacity as part of a reciprocal deal in which Kawasaki will take the British company's Grantham-made rigid dump trucks.

LancerBoss completed a deal last year to manufacture at its Steinbok plant at Moosburg, West Germany, forklifts of its own design for Nissan.

LancerBoss has made Komatsu-designed trucks in the UK for a number of years.

The privately owned Brown group is using its Moxy dump truck plant in Norway to make articulated dump trucks for Komatsu to a Moxy design, with Komatsu engines and livery.

Perkins, the Peterborough diesel manufacturer, has recently begun selling under the Perkins 100 Series label Shibaura-made diesel engines of up to 45 hp.

It has sold 5,000 so far but is forecasting that sales might reach 15,000 a year.

Perkins says the long-term aim is to manufacture Shibaura-designed engines and as part of the arrangement Shibaura is buying the Perkins 1,000 Series engine to go into its medium-weight tractors made in Japan.

Perkins hopes to sell Shibaura about a thousand of the engines a year.

The Japanese benefit in two ways from having products made in the UK.

It helps them to overcome some of the export problems caused by the value of the yen and, for some products, helps to circumvent European Community anti-dumping tariffs or voluntary agreements on export volumes.

In the case of the deal with Moxy, Komatsu gets access to a product line where it has failed to make a mark with its own design.

British companies can benefit by obtaining Japanese-designed products to fill gaps in their product range.

Newcastle-based Northern Engineering Industries, the power station and materials handling supplier, said this week that it was taking Mitsubishi-designed middle-power switchgear because its own product was dated.

It was more cost-effective to buy someone else's for manufacturing in the UK than to develop its own.

The number of deals between British and Japanese companies in heavy and medium engineering is still very small.

Even taking account of the difference in size between the UK and the US, Japanese direct and indirect involvement in engineering in North America through production plants and joint ventures is many times greater.

One characteristic of heavy and medium engineering in the UK, compared with some other sectors, is that British companies can often be near-equal partners with the Japanese in those arrangements.

In spite of the decline of engineering in Britain, the industry still provides a £4bn trade surplus, excluding aerospace and motor vehicles, and there are hundreds of companies still producing machinery and components.

There are for example ten or so own-brand diesel engine makers manufacturing in the UK, several bearings manufacturers and at least three mainstream lift truck makers.

Because of the engineering infrastructure remaining, some Japanese-related manufacturing operations in the UK can tap into local component sourcing.

Komatsu says it has about 80 UK component suppliers. One of these, Delanair, is exporting heaters for excavator cabs to Komatsu in Japan.

Ice cubes found to carry risk

By Christopher Parkes, Consumer Industries Editor

MORE dangers lurk in the local than a drinking man may have dreamt of: findings suggest that if alcohol doesn't get you, ice cubes might.

Two UK researchers have studied 12 Yorkshire pubs and travellers' diarrhoea in Mexico, and warn in a forthcoming article in the British Food Journal that ice in drinks can produce stomach upsets because harmful microbes can survive the cold.

Lidless ice buckets, ice-making machines in dirty cellars and dishing out cubes by hand compound the risk, they say.

Job market flexibility 'increases output'

BY RALPH ATKINS

GROWING FLEXIBILITY in the UK labour market has led to strong productivity growth and there is enormous scope for further gains, a leading City of London securities house says today.

In a report titled "Britain's productivity miracle – more to come", Greenwell Montagu says manufacturing productivity has risen by 5 per cent a year since 1982. That far outstrips growth under the last Labour party-led government.

Mr Kevin Boakes, the report's author, admits that the deep recession of 1979-82 created scope for big rises in productivity. But, he says the improvement has lasted too long to be seen as temporary cyclical change.

He adds that the fast rate of productivity growth is likely to be sustained as British output per head still lags behind that of its main competitors. This will moderate upward pressure on prices and help keep retail price inflation within a 4 per cent to 5 per cent range.

The report sees the most striking labour market development in the 1980s as the changing balance of power in industrial relations. Managers have won back considerable control and have successfully introduced widespread changes in work practices.

Productivity has also been boosted by the large-scale shedding of labour by the manufacturing sector in the 1980s.

Mr Boakes argues that Britain's labour market has been made more adaptable by the increasing use of "external" workers.

These are added to a company's main workforce but with inferior conditions of employment – allowing total labour costs to be more closely linked to market forces.

The result has been sharp growth in the number of part-time, temporary and self employed workers.

Britain's productivity miracle – more to come. Greenwell Montagu Gilt-Edged, 10 Lower Thames Street, London EC3R 6AE. Free.

Deputy chairman at Northern Foods

Mr Nicholas Horsley, deputy chairman of NORTHERN FOODS, has retired from the board for health reasons. He will be succeeded by Mr Brian Howard, who joined the board as an advisory director in 1987, *writes Lisa Wood.*

Mr Horsley joined the board of Northern Foods in 1963 and was chairman from 1970 to 1986 when he stood down, again because of ill-health. During his chairmanship pre-tax profits of Northern increased from £1.7m to £67.4m.

During that period he and Mr Christopher Haskins, the current chairman, successfully steered what was a small regional dairy company away from the then fashionable mini-conglomerate path towards being a food group. Activities are now concentrated in the UK after a fraught excursion into the US food industry.

Mr Howard was previously deputy chairman of Marks & Spencer, a major customer of Northern.

Northern has recently been the object of bid speculation, with Hazlewood Foods, the food manufacturing group, holding a 3.6 per cent stake.

★

Mr Ron S. Griffin has been appointed sales and marketing director of NICO CONSTRUCTION. He was construction director.

★

Mr Iain Carslaw has been appointed commercial director of GARDNER MERCHANT. He was managing director for the Scottish region.

★

THE BRITISH CLOTHING INDUSTRY ASSOCIATION has re-elected Mr Donald Parr as chairman.

★

Mr John Cashmore has been appointed to head the newly-created Asia/Pacific region of HANIMEX, based in Sydney. He was chief executive officer of the European regional office in the UK. Mr Des Franklin, managing director of Hanimex (Australia) Pty., and chief executive officer for Australia and New Zealand, becomes chief executive officer of the group's European region. Succeeding him in Australia is Mr John Lawson, formerly marketing and sales director, consumer division, and export director, Johnson & Johnson Australia Pty.

★

Mr Roger Hartley has been appointed director, aerospace and defence, at HAWKER SIDDELEY DYNAMICS ENGINEERING. Mr David Humphreys has been appointed marketing director atHawker Siddeley subsidiary Oldham Crompton Batteries.

★

LAWSON MARDON GROUP has appointed Mr Terry J. Bloomfield as chairman of its folding carton division, Europe, succeeding Mr Robert E. Illingworth from July 1. Mr Bloomfield is managing director of Fibrenyle, a group company.

★

MORTGAGE SYSTEMS, part of Abaco Investments, has appointed Mr Mark Wood as managing director. He joins from Broker Services, a subsidiary of the BZW Group, where he was managing director.

★

Mr Brian Chambers, managing director of Bush Gould, has been appointed to the board of the parent company WILLMOTT DIXON HOLDINGS.

★

Mr J.A. Burrows has been appointed managing director and chief executive of A.J. WORTHINGTON & CO. (LEEK).

★

From June 1 Mr Alan M. Howes becomes managing director of SYMONS PEMBERTON & SPIERS, part of the H.J. Symons Group.

★

Mr Wafic Said, chairman of Saudi Investment and Finance Corporation, has been appointed a director of AITKEN HUME INTERNATIONAL, with Mr D Middleton as his alternative. Dr Ziad H. Idilby has resigned as a director.

Stock market 'is undervaluing commercial TV'

BY RAYMOND SNODDY

THE STOCK MARKET is undervaluing commercial television because of political uncertainty about its future, according to a Kleinwort Grieveson Securities report on ITV companies.

Kleinwort calculated a "pessimistic" trading valuation of £940m for the industry, almost 8 per cent more than the current stock market valuation of £875m.

To establish a new floor for ITV share prices, the Kleinwort study based its valuation on the most pessimistic assumptions.

One was that all 16 commercial television companies would lose their franchises when current agreements expired at the end of 1992. The other was that they would face so much competition or tax that they would make no further profit.

That was the basis of the Kleinwort estimate of £940m. It excluded Granada Television, part of Granada Group. Half of the estimate came from the five years of near-monopoly of television advertising that remain. The rest came from cash, subsidiaries, studios and the "hidden assets" of programme libraries and shares in Independent Television News and TV Times.

Miss Bronwen Maddox, a Kleinwort broadcasting analyst, explained: "This is a trading valuation based on the income these *assets generate, not a break-up* valuation, and it is based on a very pessimistic view of the future."

She said the Government's plan for broadcasting legislation in 1989 might not be the apocalypse that some investors feared.

"It will bring competition, but may open new sources of revenue such as sponsorship," she said. "It may institute tendering for franchises, but to do that may relax ownership restrictions."

The stockbrokers value the programme libraries of the ITV companies at £50m, with £32m of that contributed by the big five programme production companies. Kleinwort said the value of the big five's libraries was "probably very understated."

The shares of ITV companies are at a discount of 25 to 40 per cent to the market. Kleinwort recommends buying, or at least holding, the shares of all 16 commercial television companies including TV-am, the breakfast station.

London Weekend Television, the London Weekend franchise holder, is rated a strong buy, as is Television South. Anglia Television, HTV, Scottish Television, Thames Television, Tyne Tees and Ulster are all rated buys.

"Although the shortlist of the franchise life is a source of much concern to the stock market, the valuations demonstrate that five years of a near-monopoly, even on very conservative growth assumptions, is an asset worth having," Miss Maddox concluded.

Shell Expro revives plans for oil and gas fields

By Maurice Samuelson

THE SHELL-ESSO North Sea partnership, Shell Expro, is preparing to invest several hundred million pounds to develop a group of North Sea oil and gas fields on which work was halted three years ago when the price of oil fell below $10 a barrel.

The eight fields, originally known as the Gannet cluster, will start producing by the mid-1990s, subject to government approval.

The company *said in Aberdeen* yesterday: "Drilling tests and appraisals carried out so far have gone very well."

The move has been prompted by advances in oilfield technology and by a more stable international oil price.

The scope for savings has been shown by the 30 per cent reduction Shell Expro has achieved since 1986 in the Tern and Eider field projects, originally estimated to cost £910m and £640m respectively.

Developing the Gannet cluster was originally expected to cost about £2.5bn.

Changes in technology have cut that drastically but the company says it will still involve "a huge investment of hundreds of millions of pounds."

The decision to proceed with the cluster was disclosed in an internal letter to company departments in Aberdeen, London and Lowestoft.

In the letter, Mr Peter Everett, managing director, said: "Although further studies are still ongoing to firm up development concepts, successful recent drilling results and the application of cost-saving technology adequately demonstrate that these projects will be viable."

Two of the fields, Penguin and Pelican, are in the northern North Sea. The remaining six, in the central sector, will be known as *Gannet A and B*, Guillemot A and B, Puffin and Skua.

Although the fields are small compared with others such as Forties, Shell Expro says they are too big to be described as marginal.

AIDS victims 'may be refused NHS dentistry'

AIDS VICTIMS could soon be refused National Health dental care if the Government fails to fund special safety measures, dentists said yesterday.

The General Dental Practitioners Association, representing more than 3,000 British dentists, said rigorous procedures were already being used to prevent transmission of AIDS and Hepatitis B between patients and staff but more was needed.

Mr Paul Carlin, the association's vice-chairman, speaking at its annual conference in Manchester, said: "We cannot shirk our responsibilities to our other patients and staff and their families who need further reassurance about their safety.

"The distribution of the spread of viruses varies widely throughout the country, and the inability of all dental practitioners to afford the necessary measures means that high-risk patients are being targeted on to 'sympathetic' practices which are having to shoulder a tremendous burden."

Mr Carlin stressed that the association would continue to encourage all dentists to provide treatment to all patients, but urged the Government to provide the cash for the necessary safety procedures to be implemented.

Kieran Cooke examines some cautious moves towards new initiatives

Ironies in Ulster's hint of progress

THE KILLING in Northern Ireland goes on. On Saturday, a British soldier was blown up by an IRA bomb. The previous weekend, three people died after gunmen attacked a *Belfast bar* frequented by Roman Catholics.

So far this year, 28 civilians and members of the security forces have been killed. The bitter irony is that, alongside the bombs and bullets, there are at last some real signs of political progress in Northern Ireland. All but a violent minority now realise that some peaceful breakthrough must be made.

Over the past few months a chain of discussions has been taking place. Mr Tom King, the Northern Ireland Secretary, has been talking to Mr John Hume, leader of the mainly Roman Catholic Social and Democratic Labour Party.

Meanwhile, Mr Hume has had several meetings with Mr Gerry Adams, the head of Sinn Fein, the IRA's political wing. Mr King has also had discussions with Mr James Molyneaux, the Official Unionist leader, and Mr Ian Paisley, the leader of the Democratic Unionist Party.

Now, Mr Molyneaux has clearly hinted at a meeting with another key player in the Northern Ireland political imbroglio, Mr Charles Haughey, the Prime Minister of the Irish Republic.

James Molyneaux: 'May. . . talk to Mr Haughey'

John Hume: 'Evidence of a great deal of reality'

While there has been considerable Unionist criticism of the Hume-Adams talks, Northern Ireland officials have been careful to emphasise that they respect Mr Hume's considerable political judgment. Even Mr Paisley, that mighty old oratorical battleship, has ceased to create waves in these new, calmer political times.

No one is suggesting that any startling developments are going to happen in the short term. In Northern Ireland politics, one talks not of months or years but of generations. However, according to Mr Hume, there is a different atmosphere. "There is evidence of a great deal of reality around in Northern Ireland at the moment," Mr Hume said.

Mr King's talks are concerned with on the one hand moving towards some form of devolved government in Northern Ireland and on the other, allaying Unionist fears about and opposition to the 1985 Anglo-Irish Agreement.

Mr King's position is that the agreement is a fact and will stay.

Adamant Unionist opposition seems to have modified, possibly as a result of what is now widely perceived as a failed anti-agreement campaign. "You are seeing the signs of people starting to get out of their trenches," Mr King said.

Perhaps the most significant development recently has been the move to centre stage by Mr Molyneaux. Never the most charismatic of politicans, Mr Molyneaux has surprised everyone with his conciliatory gestures towards Mr Haughey, a man who has until now been deeply mistrusted by the Unionists. "I do not rule out that it may be necessary and desirable to talk to Mr Haughey," said Mr Molyneaux.

Last Saturday, Mr Haughey welcomed Mr Molyneaux's "positive" approach, saying no opportunity should be lost in attempting to bring peace to Northern Ireland. It is hardly heady stuff: there will be no summits and sudden breakthroughs.

However, all politicians north and south of the border realise that these are important times. The workings of the Anglo-Irish Agreement are due to be reviewed in November. There is new room for manoeuvre and discussion. That, in Northern Ireland, is progress.

Privatised electricity scheme 'utopian'

By Maurice Samuelson

DEEP scepticism about the Government's plan to privatise electricity supply appears in a report today from FT Business Information.

Mr Andrew Holmes, the author, challenges many of the assumptions on which Mr Cecil Parkinson, Energy Secretary, proposes to restructure the industry. Mr Holmes says many of them were "utopian."

Ministers have made much of the "needs of the consumer," he says. Yet those have been met more fully in the UK than in most countries. The Government's white paper on reform of electricity supply does little to explain how privatisation would satisfy them further.

"If electricity came in different colours, sizes, shapes and smells, it might be different," Mr Holmes writes. He feels that "the most overtly utopian" of the Government's proposals was that the industry should be freed from its interference.

"An electricity system free from government interference is difficult to imagine, let alone create," he says.

He calls the notion that competition would make electricity supply more efficient "an interesting hypothesis, but no more than that." No proof can be derived from other countries, because competition in electricity supply has never been considered of prime importance anywhere.

Under the system in the white paper, obligation to supply would be transferred from the generating authority to the 12 area distribution boards, which would be be privatised separately.

Mr Holmes wonders if an assurance from Mr Parkinson will be enough to stop the boards turning into local monopolies. The assurance was that they would not be allowed to generate more than 12 per cent to 15 per cent of their needs from their own sources.

Mr Holmes predicts that the area boards will become to all intents and purposes integrated utilities. "There is little or nothing the Government can do to prevent this," he says. "Competition cannot be regulated into existence."

Mr Holmes believes that employees in the industry will find it hard to adapt to the new commercial environment. He claims that only a minority of area board chairmen are eager for privatisation.

"For most of the people who run the industry, the transition to a 'competitive', open electricity market is not going to be easy," Mr Holmes writes.

Electricity in Europe, Opening the Market, by Andrew Holmes, FTBI, 7th Floor, 50-64 Broadway, London SW1H ODB. £155 in UK; $264 or £165 overseas.

Slower growth and lower pound forecast

BY RALPH ATKINS

A SHARP drop in Britain's economic growth rate and a fall in the value of the pound by the end of the decade are forecast in a report published today.

Staniland Hall Associates, the business forecasting company, predicts the economy will grow by 2.8 per cent this year, but by only 0.9 per cent in 1989. Unemployment is expected to rise from 2.5m this year to 2.6m in 1989.

The company believes the current strength of sterling will weaken by the end of the year. It predicts that the pound will fall against the dollar, reaching $1.8 in the fourth quarter of 1988 and $1.7 at the end of 1989.

Against the D-Mark, sterling is *expected to fall to DM2.7* by the fourth quarter of 1989, compared with its current level of about DM3.17.

The report warns of strong underlying inflationary pressures in the UK economy, although in the near term the outlook for prices is *still* relatively good. Retail prices are forecast as rising at an annual rate of about 4 per cent in 1988, edging up to 4.5 per cent in 1989.

However, it says the Government's policy of large tax cuts announced in the budget, and its tightening of monetary policy by allowing the pound to rise above a DM3 ceiling mean the balance of economic growth *will be* "much less favourable."

Much slower export growth will lead to a deterioration in Britain's trade deficit.

Staniland Hall predicts that the proportion of income saved by consumers will rise this year after falling in 1987 to the lowest level for 28 years. Consumer spending is predicted as rising by 4 per cent this year and by 1.5 per cent in 1989.

● A separate forecast for the UK economy, released today by the Society of Business Economists' Forecasting Group, also predicts a slowdown in growth. Gross domestic product is expected to rise by 3.3 per cent this year and 2.2 per cent in 1989.

However, Mr David Kern, chairman of the group, said *Britain will continue to outperform* most of western Europe, and remain above average among Organisation for Economic Co-operation and Development countries.

Retail prices are expected to rise by 3.9 per cent in 1988, and by 5.1 per cent a year in both 1989 and 1990.

Economic Indicators. Staniland Hall Associates. PO Box 643, Slough, SL1 2DF. £95. Annual subscription £235.

Strong pound puts pinch on shoemakers

BY ALICE RAWSTHORN

THE FOOTWEAR industry is *concerned about soaring imports* and faltering exports as it prepares for autumn production, traditionally the busiest period of its year.

Since last summer, the shoe manufacturers have suffered from the strength of sterling, which has fuelled a surge in imports from the Far East. So far, the industry has been sheltered from the full effect of adverse exchange rates by buoyant exports and by the length of time it takes for retailers to react to currency changes.

But the footwear companies are now fully exposed to the decline of the dollar. Moreover, the strength of sterling is making it increasingly difficult for them to compete in overseas markets.

Mr Michael Fielden, director of the *British Footwear Manufacturers* Federation, says there is now "great anxiety" in the industry as it waits to see how competitive trading conditions will be in the coming season.

In 1987, the shoe companies saw imports rise by 15 per cent and output fall by 7 per cent. That trend has accelerated in the opening months of this year when imports increased by 21 per cent and output fell further.

Yet last year the industry benefited from healthy growth in *exports within the men's shoe* sector, and from the problems of the once powerful Italian manufacturers which were hit by the strength of the lira.

This year, there are already signs that the rise of the pound is taking its toll on exports – which fell by 7 per cent in January and February – and that the Italians are recovering.

Mr Alan Linton, chief executive of Lambert Howarth, one of the largest manufacturers, says that the industry's difficulties are becoming "worse, rather than better" and that 1988 seems destined to be "a very difficult year."

The industry, which is concentrated in the north-west and the east midlands, has already been forced to resort to cost-cutting measures, such as short-time working and job losses. Several footwear companies have been forced to close.

The consensus in the industry is that such troubles will worsen. The BFMF has persuaded the Government to lobby the European Commission for the introduction of quotas on imports from Taiwan. However, unless trading conditions improve, no one doubts that more jobs will be lost and more companies will close.

Life companies are poised to win key changes in the new pension rules, writes Eric Short

The wrangle over who kisses and who tells

LIFE companies are on the verge of securing considerable concessions from the Inland Revenue over the rules for managing the new-style personal pensions when they become operational on July 1.

Under the Government's new pension environment, an employee can opt out of his or her company scheme and/or the State Earnings-Related Pension Scheme (Serps) and make personal pension arrangements through a life company or other *provider.*

The employee taking a personal pension will qualify for tax relief in full on contributions to the contracted-out, appropriate personal pension, and up to 17½ per cent of earnings (higher levels from age 50) on personal pensions not contracted-out of Serps.

However, the draft rules from the Revenue on the operation of personal pensions, contained in memorandum IR76, which were designed to monitor eligibility and contribution limits were regarded as unworkable by the life companies.

The Revenue's main concerns were that since employees get basic-rate tax credited automatically for both styles of personal pensions, it had no means of checking that employees were eligible for personal pensions or whether they were staying *within the contribution limits.*

This latter contribution control is made more difficult because employees can take out as many non-contracted-out personal pensions with different providers as they wish.

So the Revenue's memorandum proposed that before any personal pension contract was issued, *life* companies had to obtain a certificate from the employer attesting that the individual was an employee and that he or she was not a member of any company pension arrangement, other than for death, in-service or disability benefits.

Employees would have had to provide evidence of earnings and each year the provider would have been required to contact them to monitor any changes in the earnings position before proceeding.

The latter condition would *also* have applied to the self-employed, since the new-style personal pensions are replacing the existing retirement annuity contracts, through which the self-employed have made their pension provision for more than three decades.

Life companies were extremely worried about the rules, which they claimed were unworkable, particularly in regard to obtaining information from employers.

They are already experiencing difficulty in finding the required information when an employee wishes to make his own top-up arrangements through a Free-Standing Additional Voluntary Contribution (FSAVC).

Mr Alan Ainsworth, executive director of Fidelity Investment Services, claimed that the original rules reflected the "Inland Revenue's obsession for misuse of tax reliefs".

The pensions committee of the Association of British Insurers (ABI), *led by Mr Alistair Neill,* assistant general manager (pensions) of Scottish Widows' Fund, has been negotiating strongly with the Revenue, apparently with considerable success.

The final rules from the Revenue on the operation of personal pensions, due to be published in a week or two, are expected to show:

● That the self-employed can continue the existing system of self-certification. Since for the self-employed tax relief is cred*ited in the final tax assessment,* the Revenue will confirm that the life company is not required to obtain evidence of earnings.

● *Life* companies and *other* providers can issue appropriate personal pensions that are contracted-out of Serps, without any evidence. Since the contributions for such contracts are collected by the Department of Health and Social Security, the evidence required is provided automatically by the system.

● The Revenue still requires evidence from the employer when an employee applies for a personal pension that is not contracted–out of Serps. However, the life company or *other* provider can accept the application on a provisional basis until the certificate is produced. The Reve*nue is considering whether* the provisional period should be 60 or 90 days.

If the certificate is not received within the period, then the provider can accept the gross contri*bution and the employee reclaim* the tax relief.

However, the Revenue is discussing with the DHSS the feasibility of compelling employers to provide certificates.

Mr Chris Hatry, pension director at Legal and General, said reluctantly that some duty should be imposed on employers.

The latter idea has taken the Confederation of British Industry by surprise, even though Mr Neill sits on its pension committee.

Mr Esmond Lindop, deputy *director of employment affairs* at the CBI, said he was completely unaware of such moves and would not comment pending clarification of the position.

However, he confirmed that the general attitude of the CBI was that personal pensions were a transaction between the employee and the provider and that the employer should not be involved.

Some employers currently charge a fee for providing the required certificate for FSAVCs, reflecting the cost of producing the document.

Finally, the Revenue is likely to take on the role of monitoring *contribution* levels on personal pensions.

Providers would furnish details once a year, possibly on tape that can be fed into the Revenue's computer.

However, the problem remains: how overpayments can be refunded when there is more than one provider.

THIS WEEK Alfred C. DeCrane, chairman of Texaco, hopes to find out whether his plan for the oil giant to grow small gracefully will start a corporate gunfight from which only one side can survive. The dark stranger in this Wall Street Western is Carl Icahn, the takeover specialist. He walked without a welcome into the affairs of America's third largest oil company, when he picked up 14.8 per cent of the then bankrupt company last year.

The latest battleground for the Texaco management is set to be annual meeting in the Plaza ballroom of the Westin Hotel, Oklahoma on June 7. Icahn, champion of suffering shareholders, or smash and grab raider, according to your preference, has threatened to unseat five members of the board including president and chief executive, the 60-year-old James Kinnear.

The issue for DeCrane and and Kinnear is whether Texaco's corporate morale can be restored by an orderly retreat and regrouping envisaged by their re-organisation plan. This aims to salvage as much of the business as possible, combining asset sales with substantially increased investment in the more profitable parts. Icahn has appeared to want a much more ambitious asset sale programme, with special measures like a share buy-back programme to boost the value of Texaco's stock.

A temporary stand-off has now been agreed to allow further talks this week; if Icahn still insists on a battle of proxy votes, both sides have agreed that they will support an adjournment of the annual meeting for seven days.

This battle of wills arises from the extraordinary $11bn damages awarded by a Texas court to the much smaller Pennzoil. This Houston-based oil company alleged that Texaco's purchase of Getty Oil violated a contract previously agreed with Pennzoil. Still protesting its innocence, Texaco was driven into bankruptcy last year, then agreed to settle for $3bn. But bankruptcy triggered other claims. The company paid $1.25bn to the Department of Energy to settle a dispute about price controls in the late 1970s; it is to pay off other debts of $2.5bn accumulated during bankruptcy. In addition it has had to parry disputed tax claims of $6.5bn from the Internal Revenue Service going back more than 20 years.

DeCrane says he is encouraged that Icahn "now sees value" in the management's strategy, adding that Icahn has been clearly told that the company will not consider any proposal for "greenmail" – a special inducement to one group of shareholders to stop them being a nuisance. However, the fact remains that Icahn has not withdrawn his threat of standing for the board with four associates. DeCrane says cautiously that he hopes that "perhaps we will be able to resolve this without all of the added expense and disruption to the company of a formal proxy contest and two slates presented to the shareholders."

Although DeCrane is not due for re-election this year, a vote in Icahn's favour would be almost as disastrous for him as for Kinnear.

Icahn has pressed for a big sell-off, including perhaps Canadian and Far Eastern interests, to put some of the company's $34bn of assets into the shareholders' pockets. However, DeCrane says: "We have asked him on a number of occasions what ideas does he have, and he has said fundamentally, well I just don't have enough appreciation of the business to be able to offer any ideas," says DeCrane. It is hardly likely, though, that conversations in recent months were very relaxed, since Texaco has put a team of investigators onto Icahn's tail and applied to the courts to stop him collecting a bag of proxy votes for the next annual meeting.

The fundamental disagreement, DeCrane was saying just before the recent truce, was between the present management's desire to run the company for the benefit of all stockholders and Icahn's wish to "force actions on the company which would provide special benefits to Icahn and his group. In all the situations in which he has been involved in the past that we have been able to investigate, this has been his focus."

However, Icahn has now denied that he is seeking a special advantage, and the real argument is likely to be about whether the value of Texaco's stock should be boosted by measures which have an obvious short term pay-off or a longer term strategy.

Alfred DeCrane: "If you look at break-ups realistically they do not produce value or return"

Tony Andrews

High noon for Texaco?

Max Wilkinson examines the strategy of America's third largest and once bankrupt oil group as it squares up to Wall Street takeover specialist, Carl Icahn

The best value for stockholders, says DeCrane, will result from holding the business together, developing and sharpening up the parts which are left after the necessary disposal programme is complete.

"So many analysts calculate so called break-up values for a company. But they do not take into consideration the horrendous tax consequences, from capital gains and other taxes. If you look at break-ups realistically they do not produce value or a return."

Nevertheless, it seems likely that the Texaco management's strategy may have been more influenced by the Icahn threat than it cares to admit. The target of $3bn of asset sales in the re-organisation proposals last year has since been raised to "at least $5bn". Payment of dividends has been resumed at $0.75 per share – fairly generous considering the present state of the balance sheet. In addition, Kinnear has talked sympathetically about buying in the company's stock as a possible option.

However, the idea of buying in stock as Exxon, Mobil and others of its more fortunate competitors have done appears, to say the least, ambitious for Texaco at present. It's ratio of debt to equity is now at about 53 per cent, well above the "mid to high 30s" which DeCrane sees as the target level.

Nor is Texaco likely to have much cash to spare for some time ahead, even though some major re-investment will be needed to improve profitability in the new slimmed down Texaco.

Last year's capital spending by Texaco and its subsidiaries, at just under $2bn, was 9 per cent below the previous year's figure and little more than half the figure for 1984. Capital budgets were cut throughout the oil industry when the oil price collapsed in 1986, but Texaco's record in finding new oil and replacing reserves has been poor by the industry's standards in recent years.

DeCrane says that the asset sales which Texaco has publicly said are under negotiation could raise about half of the $5bn target. The major items are the sale of a partshare in three or more of its seven refineries on coastal sites in Texas, Louisiana and Delaware, disposal of some 600 oil and gas properties and the sale of Texaco's West German subsidiary.

The refinery joint venture is easily the most interesting of these, because it fits in with long standing ambition of several Gulf oil producers to move further "downstream". Saudi Arabia is the most likely purchaser, although DeCrane says talks are also proceeding with other potential buyers, including Kuwait and Venezuela.

Apart from raising $1bn or more in cash the deal would have a longer term attraction for Texaco which has seen its reserves steadily running down in recent years. Last year it scored a significant improvement by adding to its reserves 70 per cent of its total production, but even this figure was well behind the performance of the industry's top league.

DeCrane was for 12 years Texaco's representative on the board of the Arabian American Oil Company, the partnership with Exxon, Mobil and Chevron which still manages much of Saudi Arabia's oil production. It is not surprising, therefore, that he sees advantages in closer links with a country with huge reserves – on which the US will become increasingly dependent.

"We are not going out of the marketing and refining business. We can make money using other people's crude. We think one way to do that is through these joint ventures. Opec states are interested in a form of re-integration of the industry which would provide an assured placement of their oil supplies, so they would not be subject to the vicissitudes of the market – having to beat the lowest price when they want to sell extra barrels," he says.

DeCrane acknowledges that this poses delicate problems for Texaco, because the company will naturally want to be assured that it will be free to buy crude from the cheapest source for its own part of the joint venture.

Disposal of some 60m barrels of oil reserves (only about 2 per cent of Texaco's total) and 26bn cubic feet of gas reserves is expected to raise some $300m to $400m. The sale of Texaco's West German operations, probably to Rheinische-Westfaelisches Elektricitaetswerk RWE seems likely to raise a further $1.4bn or so.

After that, what next? Many of the major oil companies are prowling, hoping that Caltex, the successful Far Eastern subsidiary jointly owned with Chevron, may have to go under the hammer. A half of Caltex with net assets of $2.5bn would be would be highly saleable. Yet, Decrane returns to management's theme that the disposal policy is not just about raising cash, but part of a plan to get rid of the least well performing assets. At the end of it all he hopes Texaco will be achieving a higher return on a smaller base, which will still remain fairly broadly spread geographically and across different parts of the oil business.

But will the major stockholders agree? Even if Icahn and his supporters accept that Kinnear and DeCrane have a sound, long-term strategy, will they back the present management to carry it out? They may yet seek to persuade stockholders that it represents an attempt to put Humpty Dumpty together again by the same men who should have prevented him from falling off the wall in the first place.

Shouting is not an alternative

Michael Skapinker on companies' attitudes to developing foreign language skills

A BRITISH company was asked in a recent survey how it overcame the language barrier when dealing with foreign customers. "We shout loudly in English," it replied.

Fortunately, the survey shows, not all UK companies act as if the only people who cannot understand English are those whose hearing is impaired. For example, Beecham Products Overseas, part of the large UK-based pharmaceuticals group, has staff who can operate in French, German, Spanish, Portuguese, Arabic and Japanese.

The survey, published by Newcastle-upon-Tyne Polytechnic and the Centre for Information on Language Teaching and Research, looks at the language skills and needs of companies in the west of Scotland and ten regions of England.

It also includes some useful accounts from companies which have made progress in teaching their employees foreign languages, as well as from providers of language courses.

The picture that emerges from the survey is a patchy one. While some companies have extensive in-house language programmes, others still spend large sums of money on outside translators and other agencies.

Many admit that their export performance would improve if their staff had a better command of other languages. They agree that competence in the customer's language is a crucial weapon in winning business outside the UK, and is likely to become even more so with the completion of the single European market in 1992. Even English-speaking buyers abroad look more favourably on sales people who have taken the trouble to learn something of their language.

The clear message from those companies which have invested in language education is that it needs to be carefully managed. Robert Taylor of IC, a specialist training agency, says that companies should carry out an employee audit to establish who would benefit from training and what languages they require.

The next step is to decide what form the tuition should take. Should the company arrange classes or should it try to arrange one-to-one tuition for particular employees? The latter might be more suitable for staff who are often on the road. The Cicero School in Tunbridge Wells, not mentioned in this survey, even offers tuition on the phone.

If the company does decide to run classes, *it needs to ensure* that the students in a particular group have similar goals. Taylor points out that a switchboard operator has different language needs from an export salesman. The chemicals group ICI, for example, says it has arranged German classes for the after-sales service people of one particular product.

Taylor stresses that the teachers used must be properly trained. "It is a common misconception that any speaker of a foreign language can teach it," he says. Marion Smart of the motor manufacturer Peugeot Talbot says that the company uses native French speakers to teach employees at intermediate and advanced levels. For beginners, however, the Peugeot Talbot uses English speakers with a good command of French on the grounds that they have a clearer understanding of the difficulties their students might experience.

All the companies involved emphasise that there is no quick route to success. Unless the employee already has a good command of the language, an intensive crash course is unlikely to be effective.

Smart says that Peugeot Talbot estimates that complete beginners need 500 to 600 hours of tuition, as well as several hours of home study every week, before they can participate actively in a business meeting in French.

There are over 100 Peugeot Talbot employees learning French at any one time. As most of them have classes for 2½ hours a week, they can expect to be on the programme for five or six years.

Smart adds, however, that "for some people, it is sufficient for their work purposes to study to intermediate level and stop after 300 to 400 hours. We find that even those who drop out early in the programme find that the little they have learnt is useful in their day-to-day work and helps them, at least, to decipher telexes or answer the telephone."

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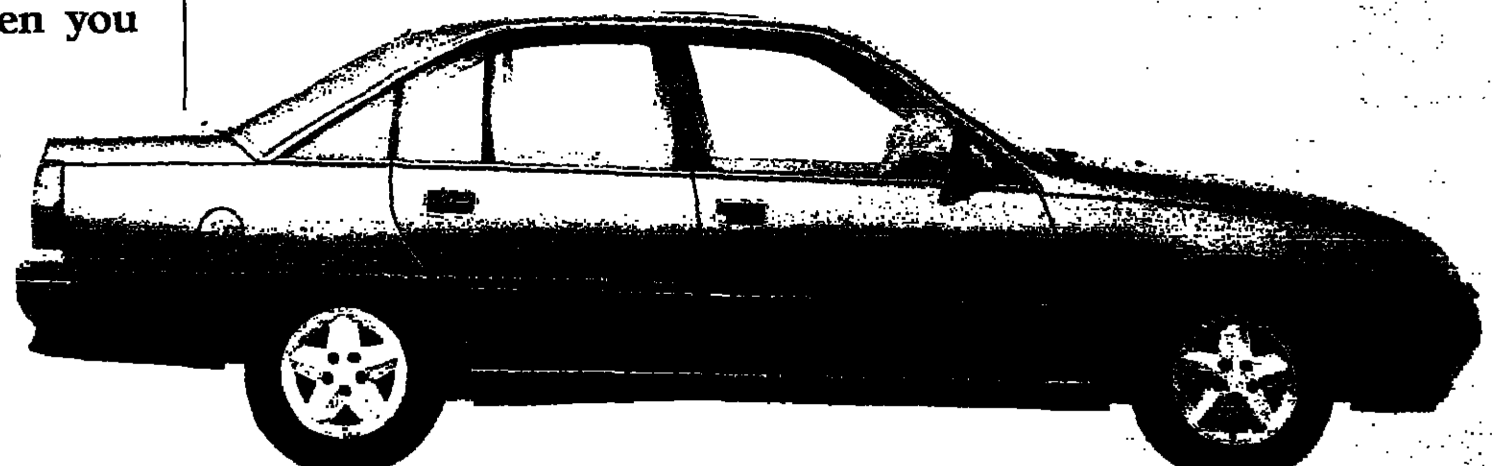

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CONSTRUCTION CONTRACTS

Office block in Guildford

GEOFFREY OSBORNE, Chichester, has won £10m worth of new contracts.

The largest is a £5m contract for Norwich Union. It involves demolition of a development on a Guildford town-centre site and construction of an office block in its place. To be known as Bridge House, this scheme overlooks the River Wey and work includes upgrading the river towpath.

The rebuild will comprise 36,500 sq ft of office floor space in four-storeys with 37 car parking spaces. Special features will be a granite-clad central atrium to bring added natural light into the building, and highly-detailed decorative brickwork, stonework and curtain walling externally.

Safeway Store

At Hastings, Osborne is building a £2.5m Safeway Store for Argyll Stores (Properties). The single-storey building comprises brick cladding on a steel frame. External works include car parks and landscaping. The 48 week contract is due for completion in spring 1989.

In Chichester, the company is undertaking a £500,000 refurbishment contract for MacDonalds Property Company. Chichester's old Corn Exchange is being converted into a MacDonald's fast food outlet. Work has started on this 18 week contract and completion is scheduled for August this year.

Osborne's civil engineering division has been awarded a £1.7m contract by management contractor Higgs and Hill to undertake the groundworks and reinforced concrete substructures for the new Esso headquarters at Leatherhead.

At Salisbury a £100,000 contract for British Telecom will provide a new roadway and drainage at the Bemerton TEC Depot. The Isle of Wight division started work this month on a £220,000 conversion scheme for Trinity House Lighthouse Service. This 20 week contract is to convert existing workshops and stores into office accommodation.

Edgware shopping centre

Two contracts, together worth over £30m, have been awarded to KYLE STEWART.

Work has started on The Broadwalk shopping centre, a 250,000 sq ft development in the heart of Edgware in North London (pictured above). Due for completion at the end of 1989, the £15.2m project for Norwich Union Insurance Group occupies a site next to both Underground and bus stations.

The centre will include four major stores, 25 smaller shop units, and a supermarket being built for Sainsbury. A bus concourse is included. Construction will be of concrete pad foundations, an in situ concrete frame, and brick cladding. Five glazed structures will cover the 60,000 sq ft central shopping mall, which will feature extensive planting, including mature trees.

An operations centre is being built for Access, the joint credit card company, at Basildon, Essex. Work has started on the 100,000 sq ft, three-storey office development under a construction contract worth £15m.

The new building is close to Basildon House, completed for the company by Kyle Stewart last year. Due for completion in late 1989, the highly-serviced cruciform building will be of composite structural steel and an in situ concrete frame, with curtain wall cladding.

School, police complex and housing

TURRIFF CONSTRUCTION, Warwick, has been awarded contracts totalling over £11m.

The major construction division has won over £6.5m, including a £3.1m contract for the Salford Roman Catholic Diocesan Trustees for construction of a two-storey teaching and administration block, a structural steel framed sports hall, a kitchen extension and alterations to the building at Mount St. Joseph School at Bolton. The new building will have seven science laboratories and facilities for computer studies, information technology and business studies. During the construction period it has been agreed that the children will be invited to visit their new school so that they will become involved in its development.

The Thames Valley Police Authority has awarded a £1.7m contract for a control room complex at Kidlington, Oxfordshire, comprising three-storey reinforced concrete offices with block cladding and pitched slated roof; attached single-storey storage and service wing; car park and external works.

Another contract, worth £1m, has been awarded byWadehurst Properties for a sheltered housing development at Wythall, near Birmingham. The plan includes 27 traditionally constructed two-storey houses in nine blocks, one bungalow, 22 garages and conversion and refurbishment of an existing dwelling.

At Burnley, the Bradford and Northern housing association have awarded an £830,000 contract for 30 aged pensioners flats in three two-storey traditionally constructed blocks. The external walls will be built in reconstructed stoneblocks with feature window surrounds.

Turriff projects division has been awarded a design and build contract for EWAB Engineering of Sweden for new industrial premises at Telford.

The general building division has been awarded a £1.5m contract by South Staffordshire District Council for the modernisation and refurbishment of 162 homes at Wolverhampton. Other contracts won by this division are at Cleveland, Leeds, Rugby and March (Cambridgeshire).

Moffat Whittall has won an £850,000 contract from Ansells for the development of a listed building and conversion into a public house next to the Birmingham International Convention Centre.

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Architecture/Colin Amery

Stirling work in Liverpool and London

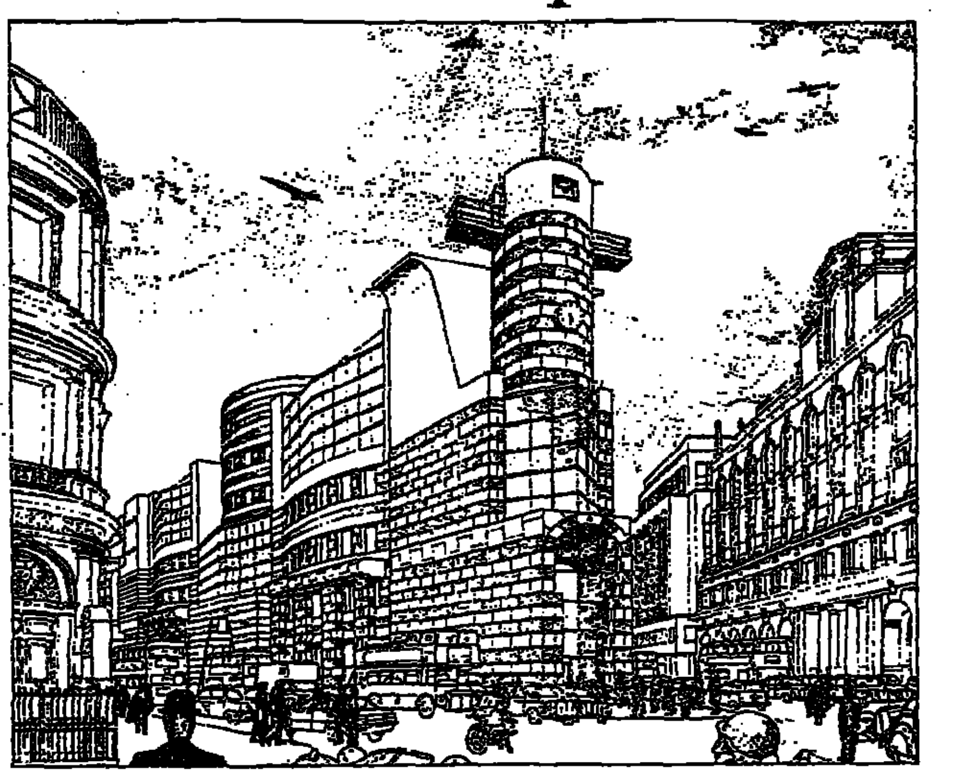
Tomorrow the Tate Gallery opens its new premises in Liverpool in a part of the refurbished Albert Dock. The architects for the conversion of the 1840s buildings (built by Jesse Hartley and Philip Hardwick) are James Stirling, Michael Wilford and Partners, who designed the Clore Galleries at the Tate in London and are now working on a major expansion scheme for the *remainder* of the Tate on its London site.

Albert Dock is one of the most noble and dignified ranges of Victorian functional buildings in the country. Not for nothing is it listed Grade I – its Tuscan colonnade and powerfully simple warehouse walls make it timeless. Stirling was a good choice for the conversion of the warehouse spaces into art galleries: he grew up in Liverpool, his father was a ship's engineer and he has a feeling for the intrinsic power of the simply engineered buildings.

Visitors to the new Tate should not expect to see much of Stirling. The interiors have been adapted in a very minimal fashion, with even his normally strident colours subdued to a terracotta and marine blue scheme. The international modern white art gallery room is the order of the day and in some ways the Tate seems to want to forget that it is in the Albert Dock at all; I thought the decision to hide many of the window openings with crude white metal gauzes an unfortunate one.

The contemporary requirement for gallery lighting and air conditioning has meant a massive service duct running through the galleries, and in some of the lower spaces this is inevitably intrusive. The technical needs defined by curators play an increasingly large role in the design of galleries, even when it comes to the conversion of existing spaces. It is interesting to compare the new Tate with the conversion of the "D" block of the Albert Dock complex by the Liverpool firm of architects Brock Carmichael Associates for the Maritime Museum: here the internal brickwork has been retained as a background to the three-dimensional exhibits, and the result is both sympathetic and authentic.

James Stirling's metal-sided coffee shop is the most innovative element in the entrance area of the new Tate. It looks like a suspended ship's hull and its toughness seems entirely appropriate, fitting in well with the retained cast iron columns and the flagstones. He has shown in Liverpool that good design is not incompatible with listed buildings, and that happy marriages are often the result of compromise and gentle collaboration.



The latest James Stirling design for the Mappin and Webb site in the City of London, which would rise to twice the height of the neighbouring Mansion House

*

Mr Stirling and his client Mr Peter Palumbo are currently going through a public inquiry about listed buildings and conservation on the triangular site between Poultry and the Mansion House in the City of London. This is part of the site that was the *subject of an earlier public* inquiry in 1984 when proposals for a tower and square by Mies van der Rohe were rejected by the Secretary of State for the Environment.

The new building will mean the total demolition of eight listed *buildings* in the heart of the Bank of England Conservation Area. The City's own planning *committee and the Court of* Common Council have rejected the proposals. English Heritage also object strongly to the plans – and has explained that the relevant conservation legislation as enshrined in the most recent Department of Environment Circular makes it very clear that consent to demolish should only be given if the existing historic buildings cannot be adapted or refurbished: "The Secretary of *State will not* be prepared to grant listed building consent for the total or substantial demolition *of a listed building unless he* is satisfied that every possible effort has been made to continue the present use or to find an alternative use for the building."

There have been recent examples where the Environment Secretary has followed this advice on listed buildings in sites that are much less prominent than this one. Is there any convincing reason for the inspector to advise the Secretary of State at this inquiry that the carefully constructed conservation safeguards should be overthrown for Mr Palumbo?

After the last public inquiry in 1984 the then Environment Secretary wrote that while he supported his inspector's view that the Mies van der Rohe scheme should not go ahead, he did not rule out redevelopment "if there were acceptable proposals for replacing the existing buildings." It is this statement that lies behind the second time-consuming inquiry. Very expensive lawyers will question and cross-examine witnesses (who can be paid) about the merits of Mr Stirling's new designs for the site.

Is it possible for this sort of legal process to decide whether James Stirling's proposals are more acceptable than Blecher's agreeable Gothic style Mappin and Webb building, and the other nineteenth century commercial buildings that make up the whole extensive and impressive group? The tragedy of this sort of approach is that it inevitably leads to polarisation. It makes it look as though you cannot care about conservation in the historic areas of Britain and support contemporary architecture and design. I passionately long for a higher standard of good new buildings in the City of London. There are plenty of sites where they can be built.

English Heritage (and I have to declare an interest as a recently appointed member of the London Advisory Committee of that body) have prepared a perfectly feasible scheme for the site, showing, with the help of architect Terry Farrell and SAVE, that the listed buildings can be profitably re-used and restored. English Heritage will present its scheme to the inquiry.

The polarisation of architectural opinion, and indeed informed public opinion, that the No. 1 Poultry inquiry inevitably causes is unfortunate. *To want to* keep an interesting and perfectly viable collection of listed build*ings is not unreasonable. To sug*gest that "opposition to modern architecture in Britain goes from top to bottom," as Mr Stirling does, is nonsense. He has himself shown in Liverpool that he realises the importance of a respect for the past in our cities, and that older buildings can accommodate new uses very effectively. Architectural progress does not depend upon destruction.

Katya Kabanova/Glyndebourne

Max Loppert

Glyndebourne proved itself a wonderfully accommodating home for Janacek 13 years ago, when *The Cunning Little Vixen* entered the festival repertory. Too much time was then allowed to elapse between this success and that of the beautiful, touching and passionately eloquent new *Katya Kabanova* that opened last week; but the performance certainly showed how well, if tardily, the lesson has been learned. (*The production, first new offer*ing of the current season, is supported by the Philip and Pauline *Harris Charitable Trust*). *Sung* freshly by unstrained voices, and acted with the close observation *which this theatre allows*, the opera disclosed – even to a long-persuaded Janacek-lover – new facets for admiration.

It is a very clean-lined, bright-coloured *Katya* we see – unusual adjectives, perhaps, to use on a tale of the oppressively crushing Russian middle-class, but apposite because the staging has honestly discovered these qualities in both score and libretto. The producer, making his British debut, is the noted German, Nikolaus Lehnhoff, working with his usual design partner, Tobias Hoheisel. They have evidently taken their germinating inspiration from the harsh, flat colours of the Russian countryside – brilliant ochre, flame red, bursts of violent blue and green, and night stretches of crimson and lavender, all presented in great swathes that work against each other in expertly determined contrast.

The set, whether outdoors or in, is a simply cut outline, lit to exclude almost all shadow, the effect created is simultaneously modern and timeless, intensely Russian and universal, primitive and sophisticated; and the style of the acting borrows its most telling moments from a similar blend of economical naturalism and stylisation. It is a staging that draws strengths from a variety of artistic influences without being in the least arty, a staging that sticks (most of the way) very close to the text.

"Heightened naturalism" is how one might fairly sum up Janacek's *compositional mode*, and how one might admiringly describe this new *Katya*. *The drop curtain falls to delineate* scenes in the right place and at the right time; Mr Lehnhoff and *his partners deliver their work* with a professionalism that is well found, and well displayed, at Glyndebourne.

It is a production unusually definite in its use of detail. On occasion *I found myself noting* that the producer had "read" the characters differently from the way *I believe the notes and* words suggest he should. Katya herself, in the ravishingly unaf*fected person, tall and fine*-limbed, and voice of the American soprano Nancy Gustafson (*another British debutant*), is relaxed in movement and ready with a smile; in her two opening scenes she fails – on purpose, I'm sure – to register the full constricting effect that living in the Kabanov household has already had on her.

One might almost fault her playing with too much sweetness. But if so, it is a fault of a lovely and wholly sympathetic kind, and the singing has the same kind of unaffected sweetness. In the finale Miss Gustafson's soft phrases were wonderfully moving. In general, where I disagreed with producer and leading player, it was respectfully so, for these are a Janacek production and title performance of rare wholeness of purpose.

The same quality is found in Barry McCauley's *handsome* Boris (voice less handsome, perhaps, but bravely used), and the warmly played, *delightfully sung* young couple of Louise Winter and John Graham-Hall. Felicity Palmer, restraining her usual tendency to fussiness of movement as a ferociously formidable Kabanicha, and Ryland Davies (Tichon) are exactly placed, without caricature.

Only Donald Adams, he of G & S renown, is miscast as a fidgety-comical bowler-hatted Dikoy, and his Czech enunciation is ripely English. This is perhaps the place to mention that an entirely English-speaking cast attempt the original language with varying success while beastly surtitles make their Glyndebourne debut overhead, regularly giving out information before the characters themselves have. This is a vividly sung performance, but in the language of the audience it would have been twice that.

The conductor is Andrew Davis, who demonstrated his love for Janacek in his very first Festival Hall concert, in 1970, and who here does so again with a reading vigorously accented and paced to cover extremes of fast and slow. Much of the passionately signalled commitment is a bit overdone, especially in orchestral interludes, and the playing of the LPO was not always free of fluff, though also vibrant and full of energy.

Holloway/Elizabeth Hall

Max Loppert

The second of this month's two-weekend "Response" series by the London Sinfonietta opened on Friday with a marvellous concert conducted by Oliver Knussen. It contained an early, toughly-made piece by Knussen himself, *Processionals*; a characteristically pastel-pretty, sound-sparkling new mood-piece by Toru Takemitsu, *Tree Line*; a splendid Robin Holloway premiere, of which more below; and a magisterial closing account of Elliott Carter's magnificently craggy *Penthode*. All the offerings and performances deserve more space than they can be given here – that too is typical of the best Sinfonietta concerts.

For the occasion, Holloway had produced a Double Concerto for clarinet (Michael Collins) and saxophone (*John Harle*) with two chamber orchestras. It was originally to be called *Cockfight*; one *sees why, and also why the title* was abandoned. The image of organised contest – each solo *instrument facing the other sup*ported by its own band, with the neutral "referee" forces of harp, piano (doubling celeste) and cimbani in the middle – suits the highly-charged way the work begins, but not how it progresses, nor how it is transformed by the close into a unison meeting between soloists.

This is altogether one of the most substantial Holloway compositions of recent times. As in the Second Concerto for Orchestra, which it resembles in breadth of argument and confidence of scoring, the sense of a dramatic scenario functioning as subtext enriches the vigour of the musical discourse. (The initial atmosphere of dramatic confrontation throws out open and diminished fifths, seemingly irreconcilable but lyrically and lovingly harmonized into final peaceful co-existence.)

The influence of past compos*ers is clear and strong, as it is in* all of Holloway's most personal utterances: Bartok's *Wooden Prince seems to be the model for* the violent swirling-wave images of the opening movement, and the *late-Romantic string-consort* Schoenberg of *Verklärte Nacht* provides many dulcet marks of kinship in the middle movement, where the soloists begin their elaborate, halting courtship games. But here and elsewhere Holloway's operational method is not self-indulgent, not parodistical, not the easy route to audience wooing. Rather, he provides a rich source of background reference material against which his own concerto-drama stands out; the effect is one of psychological subtlety and complexity.

The Double Concerto is both "difficult" and captivating. It requires, and will reward, many more hearings – most of them, I hope, with the same brilliant soloists.

*

Owing to problems in transmission the notice of the new Glyndebourne Katya Kabanova that appeared in Friday's final edition was filled with errors. It was particularly unfortunate that the omission of one word should have resulted in Barry McCauley's Boris being called "voiceless." This was far from my original description of Mr McCauley's brave performance: apologies.

M.L.

A full-blooded farewell with the Bard's final tales

All three of Sir Peter Hall's farewell Shakespeare productions are now up and running in the Cottesloe. They are not small-scale studio affairs, but full-blooded tales of redemption and reunion earned through suffering and experience.

Thus in *Cymbeline* on Friday night, *the pell-mell revelations* of the last act were received by the audience without tittering. Innogen (as we must now call her according to scholars ruled by Simon Forman's diary and not the First Folio) is the heroine of an experimental romance, but also an instrument of political harmonisation.

As in *The Winter's Tale* and *The Tempest*, spite and jealousy divide a nation which then has to re-learn the value of public morality and civility on foreign territory, be it the Bohemian countryside, Prospero's island or the broken terrain around the caves of Milford Haven.

Art and magic characterise the learning process. Hermione's statue comes to life. Shipwrecked lords are preserved in fresh clothes, Ferdinand and Miranda are discovered at chess in Prospero's cell. Posthumus Leonatus encounters his antecedents, and Jupiter on an eagle's head, in a dream.

In *Cymbeline* this latter vision departs through the radiant roof, just as he must have done in the *Blackfriars Theatre* where these late plays, full of masques and strange music, were first performed. Hall has cottoned on to the architecture of the Cottesloe in a brand new way. We have the spectacle of the storm in *The Tempest* but we also hear every word of Tony Church's interesting Gonzalo. The rival armies in *Cymbeline* are frozen briefly in doorways, the battles fought on *Alison Chitty's endlessly tilting* split disc of scrubbed grass and grey boulder.

*Much the most insidious pro*duction is *The Tempest*. This combines intimacy and scale on the circular sand-pit, Michael Bryant's Prospero a gruff nautical cove whose rough magic is roughly and vengefully administered. But *The Tempest* is the most coherent and familiar of the three plays.

Less often do you see the masque elements incorporated not as an afterthought: Juno and Ceres have a stained glass rainbow signifying a meteorological resolution to the play, and Prospero for once does appear with a pack of hounds, red-eyed Maurice Sendak creatures indicative of their master's playful nastiness.

Bryant's performance gives a drive and energy I found missing from *The Winter's Tale*. Admittedly the structure is different in kind, but the classical formality of Leontes' "airless kingdom" is much the same as it was in happier days. And this operation looks its worst and most old-fashioned in the sheep-shearing festival, where Ken Stott's ferociously disaffected Autolycus cannot compensate for an epidemic of ghastly country bumpkinitis interrupted by a risible satyr-nalia of bare bottoms and rubber ding-dongs.

Alastair Muir

Geraldine James, who replaced Sarah Miles in Cymbeline

Tim Pigott-Smith is a Johnny One-Note of a Leontes, and a superficially Italianate Iachimo. This latter is played as a svelte jester, licking Innogen's arm to ease off the bracelet while she sleeps, but surprisingly unmoved by the beauty to whose sweet pleasure he dedicates himself. Iachimo's macho boasting is tragically invaded by true lust. Without that, he remains uninteresting. There is technical prowess to everything Mr Pigott-Smith does, but absolutely no heart or passion.

I have a similar problem with Peter Woodward, whose vocal and physical impositions are as finally wearisome in his Posthumus as they are in his Polixenes. I much preferred Nicholas Farrell's Posthumus for the RSC last year. When Mr Woodward smears himself in blood and gunk (donated, no doubt, by a similarly besmeared Tony Haygarth as Caliban) you lose sight of his meaning but not of his determination to find retribution in military *self-immolation. The role is a* great one, but this performance only hints at it with energetic flourish.

The primitivist neutrality of *Cymbeline* works well in a play where anything could happen next. You could meet an old man and two boys winning a battle in a narrow lane. Or you could wake up next to the headless trunk of the person you love. This strange fate befalls Innogen, and Geraldine James, a late replacement for Sarah Miles, takes it all in her stride. This wonderful Innogen is a woman who grows up matching words to a great range and variety of experience.

It is astonishing that so inexperienced a Shakespearian as Miss James should deliver so assured and successful a performance. She has a fine musical voice and a deeply sympathetic personality, both prerequisites for the role. She eschews pantomime laughs in drag ("A man's life is a tedious one"), preferring to register all observations, however small, as worthwhile.

Other scrupulous details include the playing by Eileen Atkins of the Queen as a devious schemer, not an Ugly Sister, and the riveting account, delivered by Peter Gordon as the court doctor, of her deep-seated loathing of King Cymbeline (Tony Church). Ken Stott is comic Cloten, though less sublimely funny than was Bruce Alexander for the RSC. And there is reliably sterling support from Basil Henson as the suspiciously well-spoken cave-dweller, Belarius.

If nothing else, the productions offer a rare chance to hear every single word uttered with skill and intelligence. They bind the worlds of artifice and experience, of lost time and spent passion, in an ingenious recreation of Jacobean stage conditions. There may be other, more contemporary styles, in which to cast the late plays. But that is not Hall's concern.

He bows out with archaeological mission accomplished and takes his National Theatre company to Russia and Tokyo next month (after this sold-out Cottesloe season) before letting the trilogy loose in the Olivier auditorium in the autumn.

Michael Coveney

Academy of Ancient Music/Barbican Hall

Richard Fairman

We continue to learn and experiment with performances *on original* instruments. The case for 18th century symphonies being performed in an authentic style is now clearly won, but recent attempts by our leading exponents in this area (Eliot Gardiner and Hogwood) to treat the concertos in the same fashion has hit a few, possibly unexpected, problems.

The main trouble lies in the wholly unauthentic size of modern concert halls. On Friday night Melvyn Tan brought his copy of an Anton Walter (1752-1826) fortepiano to the Barbican Hall for a performance of Mozart's *Coronation Concerto in* D, K537 with the Academy of Ancient Music under Christopher Hogwood: *an event whose initial* promise dissipated as soon as it became clear that the fortepiano would be reduced by its surroundings to a distant tinkling.

A certain scale and range of *dynamics is presupposed in this* music and a fortepiano is simply unable to deliver the goods in a *hall so large. On some other* occasions one might well be tempted to give up the effort of straining *the ear to catch* so much of the soloist's part, but Tan's playing demands better of his listeners. *He is one of the most subtle and* communicative among the new breed of Mozart soloists and his *performance of the Coronation* Concerto was full of fascinating things.

The Larghetto was especially interesting. We are used to hearing conventional pianists such as *Perahia adding a few ornaments* to this movement, but Tan embellishes the music lavishly to the *point* where it loses its aura of stark, classical simplicity and starts sounding positively ornate. *Unfortunately*, though, the solo instrument tended to get lost

Arts Guide

May 20-26

Opera and Ballet

NETHERLANDS

Amsterdam, Muziektheater. The Netherlands Opera in Die Entführung aus dem *Serail* by *Mozart*, directed by Helmut Polixa. The Netherlands Philharmonic, conducted by Hartmut Hänchen, with Birgit Fandrey (Konstanze), Oliver Tobias (Bassa Selim). (Wed) (255 455).

ITALY

Milan, Teatro Alla Scala. Rudolf Nureyev and Carla Fracci in La Sylphide, conducted by Michel Sasson; Flemming Flindt's choreography and scenery and costumes by Luisa Spinatelli (Sat, Sun). (Wed also, but danced by Anita Magyai and Laurent Hilaire). Donizetti's L'Elisir d'Amore produced by Andrée Ruth Shammah and designed by *Giorgio Cristini*. Giuseppe Patane conducts a cast which includes Carmela Apollonio, Alida Ferranini, Enrico Fissore, Alberto Rinaldi and Goesta Winbergh (Tues, Thurs). (80.91.26).

Rome. Teatro Dell'Opera. Enrico's successful production of Richard Strauss's Salomé, conducted by Wolfgang Rennert with *Lia-Rabine* in the title role (alternating with Edda Moser), Horst Heistermann and Elizabeth Glauser (Sat). Also Rossini's Mose produced by Pier Luigi Pizzi and conducted by Paulo Olmi. Ruggero Raimondi leads a cast which includes Ezio di Cesare, Simone Alaimo, Rockwell Blake, Jenny Drivala and *Gloria Scalchi* (Sun, Wed).

Naples, Teatro San Carlo. First perfor*mance of a new ballet by Vladimir* Vassiliev, danced by the choreographer and Ekaterina Maximova, conducted by Peter Maag. (Thurs) (417.144)

Turin, Teatro Regio. La Traviata, with the American soprano Barbara Daniels as Violetta, Dano Raffanti (Alfredo) and Leo Nucci (Germont), conducted by Nello Santi (replaced with Daniela Longhi, Paulo Barbacini and Licinio Montefusco at some performances). Pleasant conventional production by Alberto Fassini, designed by Pierluigi Samaritani. (Fri, Sun, Wed) (546.000)

Genoa, Teatro Margherita. Tosca, conducted by Daniel Oren with Raina Kabaiwanska, alternating with Adriana Morelli in the title role, *Guiseppe Giacomini and Silvano* Carroli, produced and designed by Attilio Colonnello (Sun, Tues, Thurs) (589.329)

Venice, Teatro la Fenice. The Kirov Ballet in Swan Lake (choreography by Petipa/Ivanov-Vinogradov version) (Tues, Wed). The Kirov in a Gala programme which includes Bajaderka (choreography by Petipa and music by Ludwig Minkus). Divertissement from the ballet Paquita by Petipa, and contemporary works by Bejart, Elfmann and *Oleg Vinogradov. (5210161)*

Florence, 51st Maggio Musicale. First performance of a new opera by Sylvano Bussoti, L'Ispirazione, produced by Derek Jarman and designed by the composer. The cast includes Julia Conwell, Anastasia Tomaszewska Schepis, Tilda Swinton and Richard Cowgan, conducted by Jan Latham-Koenig. (Thurs).

WEST GERMANY

Berlin, Deutsche *Oper. Aida has fine* interpretations by Cristina Angelakova, Julia Varady, Matti Salminen and Ingvar Wixell. Siegfried brings Gwyneth Jones, Gerd Brenneis and Simon Estes together. Dimitri Shostakovitch's opera, Lady Macbeth von Mtzenk is offered with Karan Armstrong, Kathryn Montgomery-Meißner, Dimiter Petkov and William Pell. A Brigitte *Fassbaender* lieder recital closes the week.

Hamburg, Staatsoper. Cav and Pag is steered to triumph by Bruna Baglioni, Giorgio Lamberti, Franz Grundheber, Natalia Troitskaya and Wladimir Atlantow. L'Elisir d'Amore features *Marie McLaughlin*, Franz Grundheber and Rolando Panerai. Le Nozze di Figaro has Linda Plech, Eva Maria Tersson and Peter Galliard. Il Barbiere di Siviglia with Hellen Kwon, Eva Maria Tersson and Geoffrey Moses.

Cologne, Opera. Carmen is respectable with Victoria Vergara, Harald Stamm and Martin Finke. Don Pasquale is a well-done repertoire/performance. Also this week, a Barbara Hendricks lieder recital, accompanied at the piano by Roland Poentinen.

Bonn, Opera. Tosca in Giancarlo del Monaco's production has a strong cast led by Teresa Zylis Gara, alternating with Grace Bumbry in the title role, Guiliano Ciannella and Juan Pons. La Gioconda, in a con*cert version, will be conducted by* Eugene Kohn and has Eva Marton outstanding in the title role. Die Meistersinger has Rene Kollo as Walther, Bernd Weikl as Sachs and Lucy Peacock as Eva.

Frankfurt, Opera. This week's high*light is Tosca, in* Jean-Pierre Ponnelle's production with Galina Savova in the title role, Louis Lima as Caravadossi and Ingvar Wixell as Baron Scarpia. Le Nozze di Figaro features Hildegard Heichele, Nan Christie, Wolfgang Schöne and Tom Fox. Also offered a Hans-Peter Blochwitz lieder recital and William Forsythe's ballet, Impressing the Czar.

Stuttgart, Opera. Otello, conducted by Garcia Navarro, convinces thanks to Julia Varady, Desdemona. Tannhäuser has Verna Scheizer, Waltraud Meier, Matthias Holle and Toni Kramer in leading roles. *Madame Butterfly* rounds off the programme.

Munich, Bayerische Staatsoper. Der Widerspenstigen Zähmung, choreographed by the late John Cranko. The rarely played Die Sache Makropulos, by Janaček will be offered for *the first time in Munich with Hilde*gard Behrens, Astrid Varnay, Kenneth Riegel and Claus H. Ahnjo. Hoffmanns Erzählungen stars Julie Kaufmann, Trudeliese Schmidt, Elena Cotrubas and Siegmund Nimsgern.

Music

PARIS

Petits Chanteurs de Paris and the Orchestre Nationale d'Ile de France, conducted by Jose-André Gendille: Bach, Fauré, Wagner, Schubert (Tue). Saint-Roche church, (42619336).

Polish Classical Philharmonic. Duparc, Wagner, Chausson, Saint-Säens (Tue) Salle Pleyel (45638873).

Annie Fischer, piano, (Wed) Salle Pleyel (45638873).

Nouvel Orchestre Philharmonic, conducted by Marek Janowski, Mozart, Stravinsky, Schoenberg (Wed) *Théâtre Des Champs Elysées* (47203637).

Orchestre de Paris, conducted by *Peter Eotvos*, BBC choir and Maitrise des Haute-de-Seine: Byrd, Bruckner, Amy (Thurs) Salle Pleyel (45638873).

ITALY

Florence, 51st Maggio Musicale, Teatro Della Pergola. Pianist Tatiana Nicolaeva playing the complete cycle of Shostakovitch's preludes and fugues (Tues, Wed) (2779236)

Milan, Teatro Alla Scala. Recital by soprano Mariana Nicolesca accompanied by Robert Kettelson: Haydn, Schubert, Brahms, Liszt, Massenet and Bellini (Mon) (80.91.26)

Genoa, Teatro Margherita. A recital by soprano Shirley Verrett conducted by Kenneth Montgomery (Sat) (589.329).

Naples, Settimane Musical Internazionali. Museo Pignatelli, Musica d'Insieme led by violinist Salvatore *Accardo: Tchaikovsky and Schubert* (Fri, Sat) (417.144).

NETHERLANDS

Amsterdam, Concertgebouw. Robert Holl, baritone, accompanied by Rudolf Jansen: Schumann, Pfitzner, Wolf (Wed) (718 345).

The Hague, Philipszaal. Anton Kerjes conducting the Netherlands Philharmonic chamber ensemble: Prokofiev, Farkas, Dohnany, Ligeti, Janaček (Wed) (60 98 10).

Utrecht, Vredenburg. Jorge Bolet, piano with the Hague Philharmonic under Bruno *Weil*: Rachmaninov, Franck (Tue). (31 45 44)

NEW YORK

New York Philharmonic, Zubin Mehta conducting Mussorgsky/Ravel (Mon); Zubin Mehta conducting Mahler (Tue); Zubin Mehta conduct*ing, Jeanne Baxtresser, flute: Zwil*ich, Mennin (world première), Mussorgsky/Ravel (Wed). Avery Fisher Hall (874 2424).

Atlanta Symphony, Brahms programme (Wed). Carnegie Hall (247 7800).

Sigurdson and Scriggins, Cello and french horn duo recital; Brahms, Bernard-Halden (Wed 12.30, free). *Juilliard Concerts at the IBM Garden Plaza*, 56th and Madison.

Fleetwood Mac/Wembley

Antony Thorncroft

The problem with Fleetwood Mac is that the behind-the-scenes *machinations of the group* are much more intriguing than any of the sounds they produce on stage. *For over two decades they* have been pop music's most fascinating soap opera, losing guitar*ists to religion like other bands* lose the beat, and with the male-female pairings in the line-up*de-coupling and then coupling* again, often with the lighting engineer, with the frequency of *British Rail trains.*

Along with the human sagas go all those statistics loved by pop *historians. Their 1977 album*, Rumours, was one of the most successful of all time with sales exceeding 20m. They followed it with Tusk which was the most costly record to produce of its age. Now, after years of Californian poolside sloth, Fleetwood Mac's career has taken another of those periodic lurches into top gear, with a top-selling album, Tango In The Night, and a world tour, which has brought them to Wembley for a staggering six nights.

It is like inspecting the survivors of an endless party, and, as ever in pop, most are in surprisingly good shape. Bassist John McVie seems never to have moved from his position backstage right, sheltering under the mammoth drum kit of Mick Fleetwood, the two survivors from the blues band that Peter Green formed in 1967. Their physical proximity is crucial; they are the synchronised power base of Fleetwood Mac, and true Brits.

Right out front are the new guitarists, as professional as session musicians, Billy Burnette *and Rick Vito, who is skilled in* firing off blues riffs, as in "I loved another woman," which stun into *silence those neanderthals in the* audience with memories of the band's earliest days. This is the *slick American packaging.*

Then there are the girls, Christine McVie, who still wears a *black velvet page boy suit and is* sensible behind the keyboards and with the vocals, and Stevie *Nicks, who looks like an incipi*ent bag lady. The imagination runs riot over her. She spends a lot of *time staggering off into the* wings on the highest of heels to change into yet another wierd costume from a drag queen's wardrobe. One moment she is like Miss Havisham in Victorian flounces; the next a mysterious moth-like creature; finally there are hints of the femme fatale. The voice is hard and unrelenting and in danger of cracking, which is just how Ms Nicks looks.

And what of the sound? Fleetwood Mac lay on a very professional, totally uninvolved, display of stadium rock, judicially playing the best of their hits. Most of the group's fans will come away more than satisfied by this reminder of just how impressive, spectacular, distracting, enjoyable, and inherently soulless, pop music can be.

Reaganomics: judgment reserved

ANTHONY HARRIS
in Washington

PRESIDENT REAGAN shares two things with another American hero, Mark Twain: a taste for jokes (though the President collects where Twain made them up), and the opportunity to read their own obituaries.

Twain's is remembered only for his response: "Reports of my death are much exaggerated." Mr Reagan did his best to put over the same message at his last press conference – he reminded reporters that he is still in charge for another eight months. Between times, though, he is trying to write his own economic obituary: every time there is good news, like the last trade and unemployment figures, he makes the announcement himself. He is hoping to prove from examples that Reaganomics has worked.

He has a job on his hands, because gloom has been in fashion in the US ever since the October crash. Indeed, the gloomy analyses published before the crash have been blamed for causing it. Their message could be summarised in three words – debt leads to disaster – and it is now pretty generally believed.

The next President's policies will certainly be the better for the popular worry about deficits. All the same, an honest verdict on Reaganomics cannot really be as one-dimensional as that. If the policies were so wrong, why are they still being so widely imitated? And if they have got America into trouble, as they have, was it all the President's fault?

An academic study just published by the National Bureau of Economic Research (NBER) offers a partial answer to the first question: Mr Reagan's tax-cutting has, to a certain extent, delivered the results which the supply-side school forecast eight years ago. There was some loss of revenue from the tax cuts, but it was very much smaller than anyone (including the Administration) expected at the time.

This is because the Laffer curve – the undefined point at which higher taxes have such a disincentive effect that revenue falls – was actually found to exist. The cut in the top rate of tax from 70 per cent to 50 per cent should have cost $24.4bn in lost revenue, according to the received wisdom embodied in the NBER model. Instead, the top earners (more than $200,000 a year) paid $18.3bn more under the low rates than they would have been expected to pay under the high ones, a swing of nearly $43bn.

It seems to work in other countries too. Mr Lawson has been able to hand back the proceeds of unexpectedly high revenues. It is too early to say whether America's 1986 cut from 50 per cent to an effective 33 per cent will also show a profit, and the same goes for Mr Lawson's step from 60 to 40 per cent – but cutting top rates is now a fashion. One up to Reagan.

A second point for the defence is that Mr Reagan did learn from his mistakes. The 1981 tax cuts may have cost less than anyone expected, but they introduced some very damaging distortions into the US economy. The combination of bad savings incentives (which simply diverted old savings into new accounts) and bad investment incentives provoked reckless over-investment with borrowed money. Since the dollar was absurdly over-valued at the time, it all went into services. Empty office towers and bankrupt savings institutions are the result.

The second tax reform of 1986, however, removed these distortions and many others. Most finance ministers now talk of bringing in low tax rates, financed by blocking loopholes, cutting subsidies and removing tax preferences – only the US and Britain have actually done it, though. In both these countries the change seems to have stimulated growth (in the US by ½ per cent a year, according to the NBER). If others had done the same, the US external deficit would certainly be smaller. The Administration has some right to resent holier-than-thou criticisms of its trade deficit, especially from Germany, with its sluggish economy – Stoltenberg (the West German Finance Minister) is now a swear-word in official Washington.

However, the US fiscal deficit was purely home-grown: how did that arise? One answer is that the American tax system is still unreformed in one dangerous respect: tax brackets are not indexed. This means that inflation pushes up revenues through what the Americans call bracket creep. US Treasury Secretaries rely on this swindle to balance their budgets. Dr Paul Craig Roberts says that the deficit first arose because inflation fell below forecast. This is an explanation, but not an excuse.

The Administration has had to budget for low inflation ever since, but the financial markets have never believed that it would last. The result is that interest rates have been persistently higher than the budget-makers expected and the deficit now consists of interest payments on the accumulated debt. The Treasury got its latest nasty surprise only two weeks ago, during the refunding, and the deficit will be a little bigger as a result.

It is odd that this deeply capitalist Administration should find its Nemesis in Wall Street, but it is no accident. The President sees his persistent deficit as the symbol of his struggle with Congress to cut spending rather than to raise taxes, and is privately glad to have passed this fiscal albatross on to his successor. Wall Street, which has to finance it, hates it. It remains obsessed with debt.

This brings us to another charge: the real trouble with the US economy is not so much over-borrowing as under-saving. Mr Reagan promised to raise saving, but failed to deliver. But it is arguable, at least, that the cause of low saving in the US is not government policy, but the same factor that has caused high unemployment in Europe: demography.

In the early 1980s the richer baby-boomers were putting their children through college just as the children of the poorer ones were looking for their first jobs. In America, the jobs were there, but the Government went into debt. In Europe there was less debt, but much less employment.

It is not clear to me that it was immoral, or even improvident, to put the jobs first. It may even turn out that the bill for Reaganomics will be paid not by the children, but by the baby-boomers themselves, as they pass into affluent middle age. They will pay it off along with their mortgages, probably in higher taxes. This will not hurt employment, because labour is tight now.

None of this means that it is unfair that the President has become a bit of a laughing-stock. History will no doubt agree with the Regan memoirs: he was affable, lazy and credulous. One might use stronger language about a man who wasted money on Star Wars while cutting housing for the poor, who tolerated Colonel North and General Noriega, whose one military triumph was in Grenada. But as an economic commentator, I would reserve judgment on his strategy. It is too early for an obituary.

INTERVIEW

A veteran with more than one finest hour

Janet Bush meets William Proxmire, 72-year-old Capitol Hill warrior

FOR A MAN who has been at the centre of many hotly-contested legislative battles in his 32 years in Congress, Senator William Proxmire's view of his best achievements may seem slightly idiosyncratic.

The 72-year-old senator retires from Congress and his post as chairman of the influential Senate Banking Committee in November. He displays an almost boyish delight in the fact that he has not missed a vote for 22 years. Recently, he reached the 10,000 mark – more than doubling the previous record for an unbroken string of votes.

Prox, as he is affectionately known on Capitol Hill, is also fiercely proud of the fact that he financed his last two races for election to the Senate out of his own pocket – $177.75 in 1976 and $145.10 in 1982, most of it spent on stamps and envelopes to send back political contributions. On both occasions, he won by margins of two to one or better.

"I think the most corrupting element in politics is the huge influx of money," he says. True to his long reputation as a campaigner against excess government spending, he notes with palpable distaste that the average winning senator spends $3m (£1.6m) or more to get elected.

He is, however, more than just a textbook example of how a senator is supposed to behave. He has always seemed to be in the thick of the legislative process – never more so than now. He is sponsoring bills which address three of the hottest issues in the financial world: the fast-eroding barriers between banking and securities activities, the October stock market crash, and corporate takeovers.

Of these, Senator Proxmire expresses most confidence in the bill to repeal the 1933 Glass-Steagall Act – the Act which set up barriers between commercial and investment banking.

The Senator has long been regarded as the nemesis of America's banking establishment because of his staunch defence of small local banks against huge money centre banks. Last autumn, he raised a few eyebrows when he said he would introduce a bill repealing Glass-Steagall – something that the big banks had urged for years, because of the expanded powers it would give them.

He explains his position in terms of competition. Gone are the days, he argues, when the banks dominated the commercial loans business and mortgage lending. Because of strides in computer technology and the development of markets in commercial paper and mortgage-backed securities, the monopoly on this kind of business – once held by the banks – has now passed to a very limited number of powerful brokerage houses. Repeal, he believes, will reignite competition.

He notes that the homebuilders' organisation has calculated that if the banks can underwrite mortgage-backed securities, it would be possible to save $1,000 on a $100,000 mortgage. "That is good business for them and good business for their customers."

A belief in service to consumers also lay behind his 1980 banking legislation, which phased out ceilings on interest rates on deposit accounts and provided for interest-bearing accounts.

Senator Proxmire has some justification for his confidence that Glass-Steagall has a good chance of repeal before Congress breaks up for the Presidential election. After the bill to repeal Glass-Steagall sponsored by Proxmire in the Senate Banking Committee was passed by a huge majority, more restrictive proposals in the House of Representatives have been losing support.

● PERSONAL FILE

1915: Born Lake Forest, Illinois. Educated at The Hill School, Pottstown, Pennsylvania
1938: English degree, Yale
1940: Master's degree business studies, Harvard
1942: Master's degree public administration, Harvard
1957: Won Senate seat Wisconsin
1967: Sponsored bill allowing banks to underwrite revenue bonds which was defeated in House
1980: Monetary Control Act passed
1975-1981, 1986: Chairman of Senate Banking Committee

The House Banking Committee is now working on changes to its original proposals to bring them more into line with Proxmire's approach.

It was not always so. Senator Proxmire is modest about his role in the considerable progress made so far. He: "There are a number of people on the committee who did very well, and the committee has a terrific staff."

Congressional aides, however, tell how the Senator, through sheer force of personality and determination, faced down reluctant Democrats on his committee and ensured a united stand in the Senate in favour of repealing Glass-Steagall, rather than tinkering with it.

The survival of his bill was decided at an acrimonious meeting of the Senate Banking Committee's Democratic caucus in late February. Senator Proxmire knew he could count on the support of seven Republicans but was opposed by seven Democrats who argued vociferously for only modest new banking powers.

It was not in the interest of either Proxmire or the dissenting Democrats to disagree outside the protective environment of the committee. A row outside the committee would highlight loyalties to special interest groups and create divisions within the party in both Senate and House. Public opposition to Proxmire's proposals from important representatives of his own party would have killed them, but he was prepared to take the chance.

One by one the opposing senators pleaded home constituency interests in the insurance and securities industries.

After an hour, Senator Proxmire threatened that when the full committee met, he would put his proposals to the vote and defeat his Democratic colleagues with Republican support. Tempers grew heated; one of the more junior Democrats, forgetting the usual politeness accorded to his senior colleague, exclaimed: "Damn it, Prox, you have an obligation as chairman of this committee to provide us with political cover."

Senator Proxmire countered: "I don't even know what that is," and he went off to dinner. It was, one aide said, "Prox's finest hour."

His stand paid off. A few days later, the committee announced the compromise version of the bill which was passed in committee by a majority of 18 to 2. The full Senate approved it some weeks later by an overwhelming margin of 94 to 2.

The senator's second major preoccupation in his last few months before retirement is to give adequate reassurance to investors in the stock market. His has been the most forceful voice in favour of legislative action to tighten up regulatory procedures and ward off another financial market collapse.

He expresses frustration with the dearth of practical action so far and the lack of reaction to the recommendations of legislative changes in the report of the Brady Commission on the October crash. "Brady was their fellow," he says, referring to the Administration. "He wrote the report. We just wanted to put that report into effect."

Echoing the Brady recommendations, Senator Proxmire introduced a bill which would set up a regulatory super-agency made up of the Securities and Exchange Commission, the Commodity Futures Trading Commission and the US Federal Reserve. So far, it has won little support; the working party set up by the President to consider possible reforms rejected the idea of a super-agency last week.

He says there is no doubt that the Administration is dragging its feet and is reluctant to push for legislation to tighten up regulatory control of the financial markets. He is also aware that, as time goes on, the chances for movement on some of the major issues thrown up in the various reviews of the crash diminishes.

"The time is on the side of those who do not want to do anything. These people say the economy is doing all right, that the stock market is moving up and the volatility has quietened down."

His third initiative is to tighten up takeover rules to give managements what he sees as a fairer chance of fending of hostile bids. His bill has passed in committee and is now waiting for a hearing in the full Senate.

His worries centre on what he sees as a vicious cycle of indebtedness. "In many cases, when a corporation is taken over, its debt goes right through the ceiling. That means, come a recession, or even absent a recession, companies have to put so much into paying interest that they have very little left over for research and development, manpower training or capital investment."

The picture he paints is a populist one of the local economic base being destroyed by sharp practices on Wall Street with factories and property sold off and employees being sacked.

Debt, whether in households or in government, has been a leitmotif of Senator Proxmire's career in the Senate. The most negative legacy of the Reagan years is "the colossal debt" for which he believes the Adminstration is directly responsible. "It means that we are more vulnerable, it means we will be less competitive and it will mean that we are less able to provide the kind of efficiency we should provide."

The symbols of his fight against excessive spending are the monthly Golden Fleece awards, started in 1975. These are awarded for examples of wasted government money; Senator Proxmire hopes the awards can be continued in the private sector after his retirement.

In 13 years, Senator Proxmire's favourite Golden Fleece was awarded to the research institution which spent $103,000 trying to establish whether sunfish which drank tequila were more aggressive than sunfish which drank gin.

The senator, giggling, said: "Now if there was ever a programme where you could get volunteers, that was it."

No hiding place in the United Kingdom

JUSTINIAN

WHILE POLITICAL interest will be keenly focused on the new extradition system between Britain and Ireland as it undergoes its first real test in the case of Patrick McVeigh (who was arrested last week outside Portlaoise prison pending his return to England in connection with bombings in London) a flurry of legislative and judicial activities in extradition law is engaging wider attention.

The Criminal Justice Bill, now nearing its final stages in the parliamentary process, is the first major attempt since 1870 to provide expressly for a modern system for the surrender of fugitive criminals from one country to another against whose laws they may have offended. Britain has consistently denied the existence of any international legal duty to surrender accused persons in the absence of express stipulation with sovereign countries. The new legislation however will render the traditional approach largely academic. There is to be no haven in Britain for anyone fleeing criminal justice.

Much of the recent public concern about the inapplicability of extradition law has centred around the exemption from surrender in cases where the offence is of a political character. The principle of not returning political offenders has been retained in the new legislation, but its impact was severely restricted by the Suppression of Terrorism Act 1978 which excluded from the definition of a political offence all violent offences associated with terrorism.

A person may be committed for surrender to a foreign country only if he is accused of, or already has been convicted in that foreign country of an "extradition crime." Such a crime is one which, if committed in England or within English jurisdiction, would be one of the crimes listed in the schedule to the 1870 Act. The schedule lists the major serious crimes, but excludes treason and sedition because they are intrinsically political crimes. Otherwise the list appears exhaustive – kidnapping, false imprisonment, perjury, theft and all property offences involving fraud, forgery and laws relating to dangerous drugs. But does it include offences which involve a fraud on revenue or customs authorities?

The High Court is currently being asked to say that a decision eight years ago that tax offences are not extradictable is wrong.[1] In that case a Lebanese businessman desired to emigrate from Ghana without having to leave his property behind. To circumvent the exchange control provisions operative in Ghana he presented forged bills of lading in respect of fictitious goods being supplied from abroad to Ghana for payment in US dollars. The Government of Ghana which had given exchange control permission for the receipt of US dollars failed to have the man extradited for an offence which on the face of it disclosed forgery of a public document. That court relied upon a well known rule of English law that our courts will not enforce, directly or indirectly, a penal or revenue law of a foreign country. Extradition is an exception to that rule, but in the absence of tax offences appearing in the list of extraditable crimes the argument prevailed that parliament had deliberately not included tax offences.

The practice of listing those offences which are extraditable is to be displaced in the new legislation by defining extraditable crimes in terms of the penal sanctions attaching to them. Extradition crime means conduct in the territory of the foreign state which, if it occurred in the United Kingdom would constitute an offence punishable with imprisonment for a term of 12 months or any greater punishment.

If the 1980 decision of the High Court still stands, parliament may need to make it clear that any crime carrying a penalty of one year or more (be it a revenue offence or not) will be extraditable. If the tax fraudster is amenable to the criminal jurisdiction of a foreign state, there would seem little reason why the revenue authorities of that foreign state should not be able to recover any unpaid tax liability in that country. But the civil law does not accord such relief to the foreign tax gatherer.

Another extradition problem has been left unresolved by the High Court last week. In *R v Governor of Pentonville Prison, ex p Parekh* two judges disagreed about the effect of an inordinate delay in bringing extradition proceedings before the committing magistrates in England. In English law an unjustifiable delay in committal proceedings can amount to an abuse of process, thereby giving the court power to discharge the accused. The stipendiary magistrate in extradition proceedings is granted the same powers "as nearly as may be" as a magistrates' court acting as examining magistrates. Lord Justice Stocker thought that the discretion whether to refuse to return an offender on the grounds of delay was a matter exclusively for the Home Secretary and not for the committing magistrate. Mr Justice Hutchison disagreed.

The coalescence of the two jurisdictions is retained in the new legislation, although the stipendiary magistrates in extradition proceedings will no longer, except in cases involving Commonwealth countries, have to consider whether the evidence would be sufficient to warrant the trial of the accused person if the extradition crime had taken place within the jurisdiction of the magistrates' court. The functions of the two magistrates' courts are no longer strictly comparable and their procedures no longer need to be equated. The new law will, however, for the first time adopt a provision that has applied for 20 years now in relation to Commonwealth countries, and will allow the High Court to discharge a person awaiting surrender to a foreign country if "by reason of the passage of time since he is alleged to have committed" the crime it would be unjust or oppressive to return him.

Proceedings for extradition to foreign, non-Commonwealth countries will no longer import the safeguard of a court scrutiny of the evidence in the way that it ensures a prima facie case before committing a person to trial in England. It is this difference in approach to extradition which has aroused political opposition.

[1] *R v Governor of Pentonville Prison, ex p Khubchandani (1980) 71 Cr App R No 241*

Until very recently, only those in the upper echelons of the social register ever inherited anything of any real worth. As the heirs of "well-to-do" families they knew what was coming to them, just as they knew what was expected of them.

This wealthy and worldly minority (perhaps 10% of the population) is now about to be superseded by a new, larger and more volatile band of inheritors: today's middle-aged, middle classes.

It is they who are set to become the "nouveau riche" of the 90's and beyond. And they will, in a very real sense, owe it all to their parents.

For it was the post-war generation who first enjoyed widespread home ownership. Now retiring in their millions, they will soon be conferring their wealth upon their already affluent 40 and 50 year old children.

A portentous event when one considers that even a modest estate can now be expected to top the £100,000 mark.

In fact, estimates predict that by 1997, parents passing away will pass on a staggering £24 billion a year. (240% up on current levels.)

Undeniably, the impact of this quiet, yet colossal transfer of wealth will be immense. It will affect

OVER THE NEXT 10 YEARS, MILLIONS OF PEOPLE WILL BE CONFRONTED WITH A UNIQUE PROBLEM.

companies big and small, old and new, progressive and old-fashioned alike. It will doubtless affect you and your company. After all, millions of dutiful sons and daughters will be presented with dauntingly large legacies.

But will they spend, spend, spend? Or will they use their vast discretionary wealth with discretion?

Will they, as some pundits predict, fritter their money away on the likes of fritto misto di pesce and moules à la crème; German fitted kitchens; Milanese designer furniture; winter holidays in St Lucia and summer jaunts to gîtes in the Camargue?

Or will they, as rival experts would have us believe, plough their considerable capital into the City's money markets?

As it is, 1 in 5 adults now hold stocks and shares of one sort or another. 1 in 3 have taken out their own private pension plan. 1 in 10 have decided to invest in private health care. These figures could advance dramatically given sufficient nouveaux inheritors with sufficient financial perspicacity. No area of finance would remain untouched.

Private education, for example, could become a realistic and popular option for legions of middle class families overnight.

Whilst an ever-decreasing retirement age and a less munificent welfare state could bring pension and private health care planning to the front of millions of minds.

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Freer capital in Europe

THE RECENT agreement in principle by European Community finance ministers to free all capital movements by 1992 is an encouraging first step towards creating a more integrated and efficient European capital market. Yet even if translated into a firm commitment, as seems likely next month, it is no more than a start.

In one sense, the agreement caps a process which is already well advanced. Though Britain, West Germany and the Netherlands are the only EC countries so far to allow complete capital freedom, many others have recently relaxed their restrictions. Most governments now recognise that rigid controls are hard to enforce and economically costly because they discourage capital inflows and perpetuate inefficient domestic markets.

In many cases, the remaining controls are chiefly on transactions by individuals rather than companies. Removing them completely should assist the EC's parallel efforts to open up national markets for financial services, where the biggest trade barriers are at the retail end. UK experience with Big Bang suggests that, once exchange controls go, traditional regulatory structures can rapidly crumble.

Residual controls

The hurdles to completing capital liberalisation should not be under-estimated, however. By definition, the residual controls are the hardest to dismantle. Fixing a deadline can, of course, help to concentrate minds. In Italy, for example, it is already encouraging renewed efforts to tackle the chronic budget deficit, currently financed largely by domestic savings kept captive by exchange controls. But it is still a big gamble. If no budget solution is reached soon, Italy's concerns about the consequences of lifting exchange controls could prove insuperable.

France and Denmark have other anxieties. Both fear that their heavy taxes on interest and dividend income and on bank transactions could encourage capital outflows and tax evasion once controls were removed. They want either mandatory reporting of foreign exchange transactions or harmonisation of EC withholding taxes. Both proposals face formidable political obstacles. If no EC-wide solutions can be reached, will France and Denmark be prepared to adapt by changing their own tax structures?

Overshadowing these national concerns lies the much broader question of EC monetary policies. France has led demands for reform of the European Monetary System in preparation for 1992, calling for a European central bank. It wants both to loosen the Bundesbank's tight monetary grip and to shore up its defences against increased currency instability in a single market. Dealing with these inter-related questions will call for delicate negotiations, in which Bonn and London will play pivotal roles.

Central bank

West Germany is right to be suspicious of some recent proposals for reforming the EMS. Allowing politicians in Paris to make free with policies which would undermine the Bundesbank's monetary discipline is not the answer. However, the German position would be more credible and effective if it responded more positively to some of its EC partners' concerns about the risks of completing capital liberalisation. Bonn needs to bolster their confidence by committing itself wholeheartedly to the substantial reinforcement of short term EC monetary cooperation, which will be indispensable in a single financial market. The long term solution is a European central bank that is fully independent from political interference.

Monetary coordination cannot be fully achieved, however, until sterling becomes a full member of the EMS. Since last week's UK interest rate cuts, it is harder than ever to see what principle is served by not joining. Beyond that, by staying out of the EMS, the UK risks being left on the sidelines as financial integration proceeds in the rest of Europe. The most obvious casualty would be the City of London, whose hopes of remaining Europe's premier financial centre could be irreparably damaged.

Privatisation of water

AFTER telecommunications, gas and electricity, the Thatcher Government has now set the stage for one of the more questionable of its privatisation projects – the sale of the £27bn water industry.

The special difficulties in privatising water arise from three major differences between this industry and the other large monopolies.

First, and most important, competition in the supply of water is never likely to be significant. Gas competes to some extent with alternative fuels. Electric power generators may compete at the wholesale level; and in telecommunications US experience shows that competition is possible on trunk routes. But water is a necessity without substitutes. With few exceptions, customers will be entirely captive to one supplier.

The second difference is that in the UK water industry price signals have a feeble impact on patterns of demand and supply. While most domestic water remains un-metered, consumers who leave taps running contribute no extra revenue for investment in reservoirs or water mains. Conversely water companies which make investments cannot hope to recoup costs from increased revenues linked to rising demand. The system of water rates firmly ties the economics of water supply to the concept of public service. By contrast, the pricing of gas, electricity and telecommunications, though far from perfect, replicates in many respects the economic feedbacks of a competitive market.

Initial idea

Third, the supply of water and the disposal of sewage have been integrated since the Water Act of 1973 into the general management of river basins by the present 10 regional water authorities. With the recent appointment of Lord Crickhowell as head of a new National Rivers Authority, the Government has finally abandoned its initial idea of transferring the general regulatory powers over river basin management to the private sector companies.

It is right that profit seeking water companies should not be entrusted with regulating their own activities. Yet the logic of privatisation requires that a reasonably effective regional system for managing river basins must be dismantled and replaced by a central bureaucracy which may prove inferior.

The balance of advantage in privatising water would therefore depend on whether the companies could achieve better economic performance. But in the absence of competition or significant pricing flexibility, this will mainly be a response to the incentives provided by the regulatory regime. Regulations, for example, must give companies an incentive to undertake the large investments now needed in Britain's ageing water distribution system.

Fees structure

Unfortunately, the present structure of flat rate fees is not at all appropriate for financing major private sector investments. Yet installing meters would be expensive, fairly slow and controversial. Nor is it clear how the regulator would ensure fairness between customers which remain on a flat rate and those which change to a metered tariff.

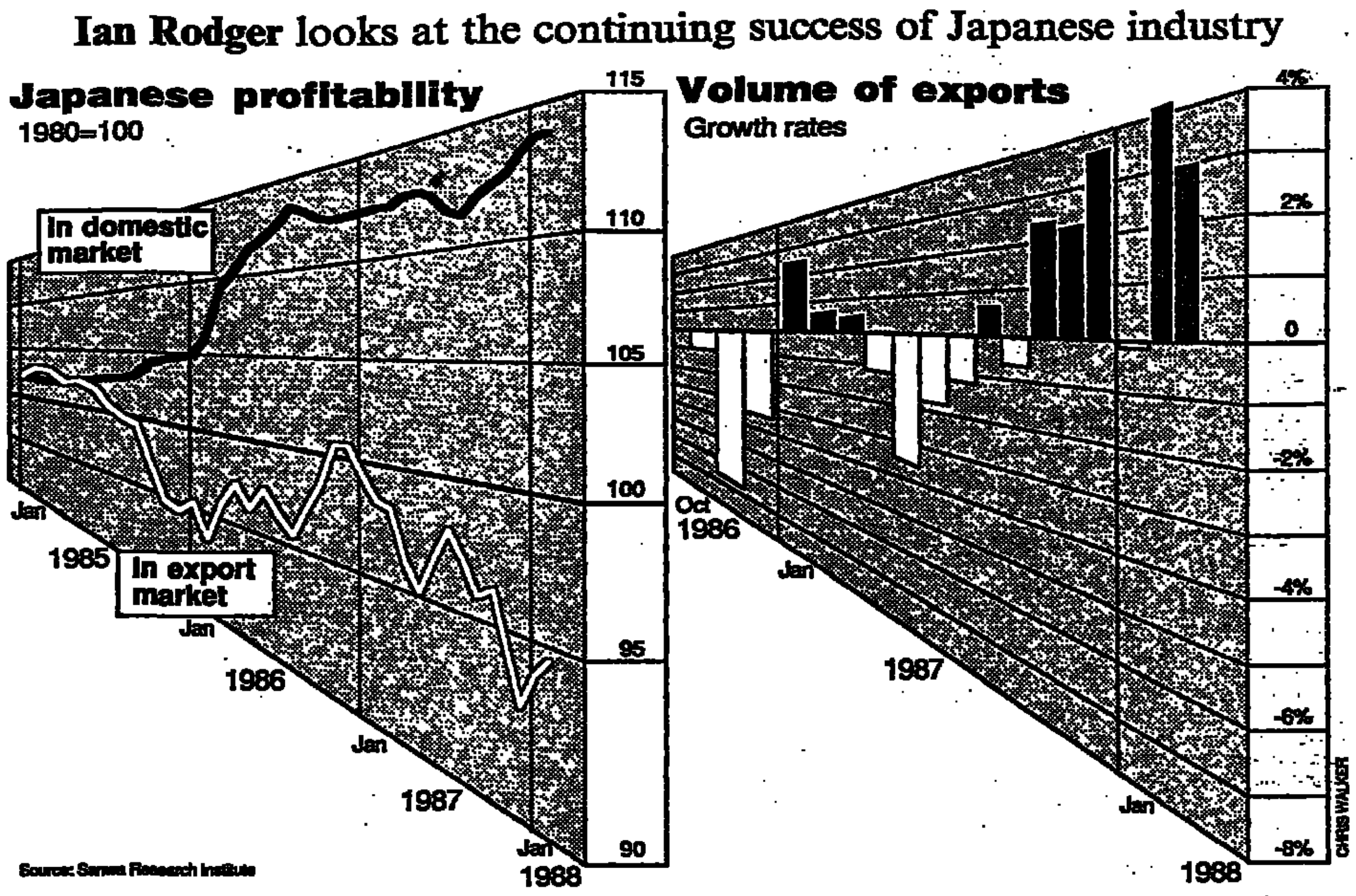
Simple price regulation of the "inflation minus x" variety favoured by this Government is unlikely to meet the the test of fairness or of providing investment incentives for the industry. Since many of the investments are very long term a stable "regulatory bargain" will be needed with the industry.

Whatever the details, this bargain must guarantee the utility a reasonable rate of return on its investment while protecting the customer from financing excessive profits. Whether or not this is combined with "yardstick competition" – comparing the performance of different authorities – an effective regulator can scarcely avoid becoming enmeshed in the details of the industry. This will be especially important if he has to disentangle profits in a monopoly business from those made elsewhere, for example overseas.

For all these reasons, the case for privatising water is weak. The Government has yet to demonstrate how a combination of privately owned local monopolies and public regulation will work to the consumer's advantage.

The elastic yen takes the strain

Ian Rodger looks at the continuing success of Japanese industry



Source: Sanwa Research Institute

JAPAN INC has done it again. The country's leading manufacturing industries have adapted successfully to another big rise in the value of the yen, and their exports are surging once more. Japan's merchandise exports grew 15 per cent in dollar terms last month, the sixth month in a row of year on year double digit growth.

The implications of this new trend are ominous, both for currency stability and for Japan's relations with its leading trading partners. Many economists in Tokyo now fear that the huge trade and current account imbalances between Japan and the US are no longer declining quickly enough to keep the foreign currency markets happy.

However, they doubt that the US authorities will take strong action to damp down the inflow of imports during the current presidential election campaign, and they see nothing more that the Japanese government can do to help. Thus they expect that soon the currency markets will once again move in where politicians fear to tread.

"We will probably see further appreciation of the yen to below Y110 to the dollar; I would not be surprised if the yen was very strong by the end of the year," says Kazuaki Harada, chief economist of Sanwa Bank.

Teizo Taya, senior economist at the Daiwa Securities Research Institute, predicts that the yen will reach Y115 to the dollar by the year end. "I do not think the rectification of the imbalances will be fast enough," he says.

Meanwhile, the fresh surge in Japan's trade surplus with the European Community countries is also causing concern in Tokyo. In the first four months of this year, the merchandise surplus was eight per cent larger than in the same period last year. The yen strengthened against the D-Mark and the Swiss franc last week, and some Japanese economists believe there could be further moves over the next few months if the trend continues. They also fear that the widening of the surplus could further aggravate protectionist sentiment in Europe. The European Commission has been arguing for months that the Japanese are diverting their export effort from the US to Europe where currencies are stronger and profit margins higher.

The general resurgence of Japanese exports since late last year has come as a big surprise, given the successive large increases in the value of the yen. A year ago, it was generally acknowledged that Japanese manufacturers had been remarkably successful in adapting to the yen's sharp rise from Y240 to the dollar in mid-1985 to the Y140 range. This had been done by a combination of rationalisation, squeezing of margins, the development of higher value products and maximising the use of cheaper imported raw materials and components.

Most economists thought by last summer that there was little, if any, room left for further adjustment along these lines. If the yen rose much further in the short term, they said, exporting would become all but impossible, and Japanese manufacturers would have to move production capacity abroad on a large scale.

In the event, the yen jumped another 12 per cent last autumn to around Y125 to the dollar, but there was scarcely a murmur of complaint from manufacturers. Within a few weeks the reason became clear. Exports, far from collapsing in the face of this new obstacle, began to grow again.

At first, economists dismissed the buoyant export figures as monthly aberrations. Then it was noticed that capital goods exports were growing particularly rapidly and it was suggested that this was a temporary – and ultimately self-cancelling – phenomenon caused partly by US manufacturers rebuilding capacity and partly by Japanese companies shipping out machinery for their own new overseas plants.

However, the trend is now so strong that economists are revising their views, acknowledging that, once again, Japanese manufacturers appear to have adjusted to the revalued currency and are merrily exporting a wide range of products. "There is no doubt, it is a trend," says Hirohiko Okumura, chief economist of Nomura Research Institute (NRI). "Japanese companies have very flexible management."

Recently published financial results from export-oriented companies confirm the trend. For example, Pioneer Electronic, the leading audio equipment group, reported last week that its export sales grew 6 per cent in the six months to March 31, 1988 thanks in part to "favourable improvements in sales of audio products in North America." Ricoh, the office and optical equipment group, said its exports were up 36 per cent in the year to March 31. Yamaha, the musical instruments group, reported a 36 per cent rise in its exports of electronic keyboards.

Economists say that the key to the resurgence of Japanese exports is the surprising strength of the US economy. This has helped Japanese companies in a number of ways.

● First, direct exports to the US from Japan itself have recovered. The latest US trade figures for March, published last week, showed that while the overall trade deficit dropped sharply, that with Japan continued to grow. Analysts say that US consumers remain surprisingly willing to buy Japanese goods despite their higher prices. In some cases, of course, such as the wildly successful new laser printers, there are virtually no alternative sources of supply and the Japanese drive to develop unique products shows no sign of letting up.

US consumers remain surprisingly willing to buy Japanese goods despite their higher prices

● Second, manufacturers in other Asian countries – some of which are newly-built subsidiaries of Japanese companies – have also been boosting their exports to the US, and so their purchases of components from Japan have been rising sharply. Last month, exports to Asean (the Association of south-east Asian nations) were up 48 per cent in dollar value, to Taiwan up 32 per cent, to South Korea up 20 per cent.

Paradoxically, the profitability of Japan's exports may be increasing as well, further enhancing the country's financial surplus. In the past two years, Japanese manufacturers have tended to absorb a large portion of the yen's increase in a bid to maintain their shares in overseas markets, rather than raise export prices.

The main competition for many Japanese products in overseas markets, especially consumer products, comes from the Asian newly industrialising countries (NICs). According to Mr David Pike of the stockbrokers UBS Phillips and Drew in Tokyo, the revaluation of these countries' currencies is creating some room for Japanese companies to raise export prices on their products. "In 1988 and 1989, export price increases may be unrelated to yen appreciation," he says, "causing a classic J-curve effect and slowing the progress of external adjustment."

Figures recently published by Sanwa Research Institute on the profitability of exports suggest that the yen's rise has never hurt Japanese manufacturers' profits much anyway. In the months immediately following the Plaza Accord in September, 1985, the profitability of exports fell less than 5 per cent, and in February this year, they were only 5.1 per cent lower than the level in September 1985. The clear implication is that Japanese manufacturers could tolerate further significant rises in the yen's value.

All this is not to suggest that Japan is going back to its bad old mercantilist ways. On the contrary, it is fulfilling most of its commitments to stimulate its economy and open the domestic market to foreign products.

In the current fiscal year, to March 1989, the economy is officially forecast to grow at 3.8 per cent, with domestic demand growth of 4.7 per cent offsetting a decline of 1 per cent in external demand. Most private sector economists believe that both domestic demand and overall growth will be somewhat stronger than the official forecasts. Imports from all the country's leading trading partners continue to grow at a very rapid rate.

Last month, imports in dollar terms from the US were up 40 per cent, while those from the EC were up 50 per cent and those from the south-east Asian countries grew 37 per cent. Also, Japanese companies continue to build up manufacturing capacity abroad. According to the Ministry of International Trade and Industry (MITI), overseas production now accounts for 11.5 per cent of Japanese companies' automobile output, 12 per cent of office machine output and 35 per cent of audio equipment output.

However, overseas demand for Japanese products is such that these adjustment measures are not having the desired effects as quickly as some had hoped. "The rapid progress in the early part of the year has raised expectations, and so people are going to be disappointed," Mr Pike says. He thinks the current account surplus will come down only marginally to $77bn from $87bn this calendar year.

The view in Tokyo is that the responsibility for the latest setback lies entirely on the other side of the Pacific. Mr Okumura of NRI points out that consumer products account for roughly two thirds of US imports because the US does not produce enough of the kinds of products that consumers want. He and others feel that as long as the US authorities are unwilling to rein in domestic demand, the trade deficit will remain at unsustainable levels. And as long as that trend persists, there will be pressure on the dollar.

The build-up of US net foreign debt, which NRI forecasts will total $780bn by the end of 1990, is causing increasing concern in Tokyo. Mr Okumura believes that servicing that debt will require an outflow of about $60bn a year, and he doubts the US will be able to do it unless its trade balance turns around rapidly. "We need a $30bn annual decline of the trade deficit for the stability of the yen," he says. His forecast for the current year is that it will fall by only half that amount.

Thus, Japanese economists expect a further significant decline of the dollar later this year. It is widely thought that the monetary authorities in the industrialised countries will do their best in the run up to the US presidential election to maintain currency stability, but after the election all bets are off. "The new US administration could well be forced by the markets to make drastic changes in economic policy," a Japanese government economist said last week.

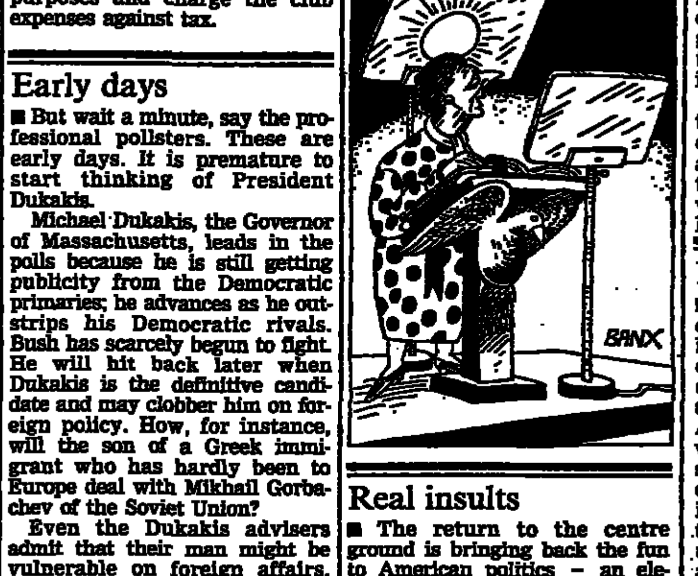
Japanese economists are bitter about this latest setback in the adjustment process because they feel that further weakening of the dollar against the yen would not do Japan or the US any good. Mr Junichi Nishiwaki, general manager of Mitsubishi Bank's economic intelligence department, says that US industry is already operating virtually at capacity levels and exports are rising rapidly. Thus, any further weakening of the dollar would almost certainly have an inflationary effect. His hope is that the US Federal Reserve will soon follow its tightening of market rates with an increase in the official discount rate. "If they hesitate, they may have to take more drastic action in the future, but we think the chances are only 50-50 that they will do it," Mr Nishiwaki says.

As for Japan, a further rise in the yen could hurt some manufacturers. "If you get enough body blows, it will have an effect," says Mr Ryuzaburo Kaku, president of Canon, the camera and office equipment group.

However, the government would be expected to step in with more stimulative measures if the economy's growth sagged significantly.

Another set of problems may be emerging because of the breathtaking rise of Japan's financial power that has come with the successive increases in the yen's value. Resentment is growing in the US and Europe of Japanese investors' aggressive real estate purchases and of their increasingly important roles in many of the world's financial markets. "This financial power may be a good thing for Japan," Mr Okumura says, "but is it a good thing for the world?"

OBSERVER



The power of women

■ George Bush has been having a bad time lately - some 10 percentage points behind in the opinion polls on the American presidential election and, even worse, 21 points on the gender gap.

Apparently an increasing number of Americans is concluding that Bush is out of touch with ordinary people. He looks, said someone not unsympathetic to him, as if he comes from another planet: "Yale written on his forehead and prep school on his chest."

The women, in particular, seem to have turned against him. He has been neglectful of day care – what we in Britain call for some reason by the French name crèches. It is the system under which working women can have their children looked after while the mothers pursue a career. The Bush family probably never had any need for it. And the Republican Party in general under eight years of President Reagan has not shown much interest in the promotion of women, in spite of having a notably active First Lady in the White House.

This is the gender gap. More women tend to vote in American elections than men, and if you can sway the women, you can possibly sway the election result.

End to clubs

■ Some of the women can be quite fierce. As a result of actions brought by a female Los Angeles lawyer, the Supreme Court may rule in the next week or so that the best known New York Clubs must admit women members if the total membership is over 400, or be declared illegal. The ruling might then be applied across America. Oddly enough, the thought of such radical change upsets even some liberal Democrats.

The case is being fought not so much on the grounds of discrimination as on the evidence that men use the clubs for business purposes and charge the club expenses against tax.

Early days

■ But wait a minute, say the professional pollsters. These are early days. It is premature to start thinking of President Dukakis.

Michael Dukakis, the Governor of Massachusetts, leads in the polls because he is still getting publicity from the Democratic primaries; he advances as he outstrips his Democratic rivals. He will hit back later when Dukakis is the definitive candidate and may clobber him on foreign policy. How, for instance, will the son of a Greek immigrant who has hardly been to Europe deal with Mikhail Gorbachev of the Soviet Union?

Even the Dukakis advisers admit that their man might be vulnerable on foreign affairs. Moreover, there is still a battle to be fought over what a Dukakis foreign policy would be: the radicalism of Jesse Jackson or the conservatism of Senator Sam Nunn of Georgia or what sort of compromise may be reached.

What is clear, however, is that this year's election will be a genuine contest. That is the great change in the last few weeks. It is hard to find anyone, even in the Republican camp, who denies categorically the possibility of a Dukakis victory. And if you leave the ultras of both parties on one side, it is equally hard not to believe that American politics are returning to a battle for the centre ground.

The conclusion that I draw from that is that it does not greatly matter who wins - Dukakis or Bush. The British Government has a different view, expressing in private a clear preference for Bush. Yet both probable candidates are pro-Nato and one cannot see that Europe has anything to fear from Dukakis.

Real insults

■ The return to the centre ground is bringing back the fun to American politics – an element not always present in Britain. At a seminar last week someone close to Dukakis gave a character sketch of the man. That sums him up very well, said a Republican supporter with immense courtesy in his voice: "He's a left-wing radical Commie lover." But nobody was offended.

Meanwhile, the search for running mates goes on and is one of the main talking points. The Republicans have been conducting a series of private polls on who might run best with Bush. Rather to their surprise, they have come up with Nancy Kassebaum, the Republican Senator for Kansas. She is the daughter of Alf Landon, the man who ran against Roosevelt in 1936. Whether they will risk her is another matter, but the attractions of having a woman on the ticket remain.

Lawsonomy

■ The seminar took place in Racine, Wisconsin. On a green-field site not far a way there is a huge sign that may say something about the future of Chancellor Lawson. It reads simply: "University of Lawsonomy."

Nigel Forman, Lawson's parliamentary private secretary, got out of the bus to take a photograph of it and it should be on the Chancellor's desk this morning.

Incidentally, for such a well-travelled man Forman has curious lapses. He arrived at London airport expecting to be admitted to America without a visa. He was sent back and came a day late.

Misery index

■ To return to the election, however: basically there are two broad slogans for any election campaign. One is "time for a change" and the other is "steady as she goes". The conundrum in America this year is knowing which one to use. The economy is still visibly growing, whatever outsiders may say about the perils of deficits. The misery index - the sum of the inflation and unemployment rates – is at an almost historic low. Yet there is also a fear almost from the top to the bottom of the society that the prosperity may be built on sand. The best bet must be that the election will turn on whether or not that fear becomes more pronounced in the next few months.

On foreign policy the big change is that the Americans no longer have the Soviet bogey to worry about in the way that they used to. One suspects that is what concerns the British Government. An America that believes less in the Soviet threat may be less inclined to maintain its European commitments.

Lack of trust

■ They still tell Soviet jokes. Two Russians were standing in Red Square beside an old Rolls Royce and a new Lada. The first comrade asks which one the other prefers. He says the Lada. "That shows," says the first comrade, "how little you know about cars." "No," says the second comrade. "It shows how little I know about you."

هكذا من الأصل

Lisa Wood reports on the growing pressures on British brewers from changing attitudes to alcohol

Two cheers for sensible drinking

BRITISH drinks companies are watching, with mounting concern, the development of a world-wide anti-alcohol movement at a time of static global sales.

The trend started in the US, the home of prohibition, but is spreading to much of the rest of the world, including Britain.

How to tackle this anti-alcohol movement is provoking intense discussion in Britain's leading drinks companies. Many have direct experience of the anti-alcohol lobby through their extensive sales to the US. They are asking themselves how serious the repercussions of the debate will be and whether they are capable of answering their critics.

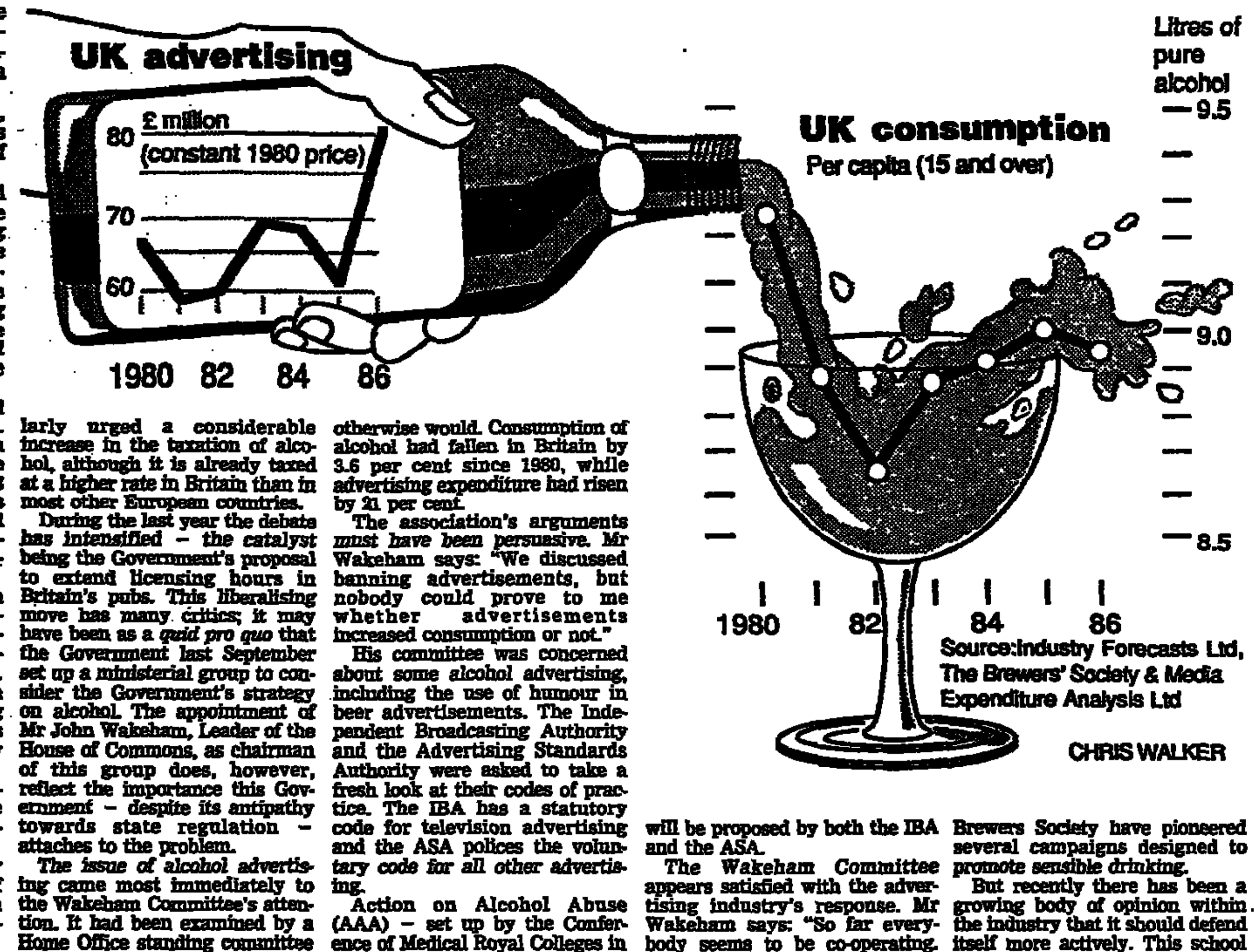
In the US there is a strong and articulate anti-alcohol campaign. Bolstered by concern for a healthy lifestyle, it is cited by the industry as one reason for a 13 per cent decline in spirits sales between 1980 and 1987. Several fresh developments are also provoking anxiety among US distillers and brewers. They include:

- The filing of three law suits in Seattle against brewers and distillers, in which parents are alleging birth defects due to consumption of alcohol during pregnancy.
- The introduction of health warnings concerning drinking and pregnancy in liquor outlets in California, a move which may be copied by other states.
- Calls for a total ban on alcohol advertising – 14 states have already implemented tighter controls.
- The publication last year by The New England Journal of Medicine of research suggesting a link between alcohol consumption and breast cancer.

Outside the US, the anti-alcohol lobby is not so well organised, except in Moslem countries. However, both the European Community and national governments are examining the public health aspects of alcohol and what measures may be appropriate to check its abuse.

In the UK, consumption of alcohol has doubled since the Second World War. The British appear relatively abstemious, ranking 23rd in the international league table. But concern over problem drinking has grown in tandem with alcoholism – estimated to affect just under two per cent of the population – and more general abuse such as drunk driving, which leads to the loss of hundreds of lives and costs billions of pounds.

The debate over problem drinking has rumbled on in Britain for years. Bodies like the British Medical Association have regularly urged a considerable increase in the taxation of alcohol, although it is already taxed at a higher rate in Britain than in most other European countries.



During the last year the debate has intensified – the catalyst being the Government's proposal to extend licensing hours in Britain's pubs. This liberalising move has many critics; it may have been as a *quid pro quo* that the Government last September set up a ministerial group to consider the Government's strategy on alcohol. The appointment of Mr John Wakeham, Leader of the House of Commons, as chairman of this group does, however, reflect the importance this Government – despite its antipathy towards state regulation – attaches to the problem.

The issue of alcohol advertising came most immediately to the Wakeham Committee's attention. It had been examined by a Home Office standing committee on crime prevention, chaired by Baroness Masham. One of the Masham committee's most alarming findings was that alcohol kills 10 times more young people than drug abuse. It recommended a strong set of measures to deter under-age drinking, including a total ban on all alcohol advertising on television and in the cinema. At the moment only spirits advertising is barred.

The committee said it believed the huge sums spent on alcohol advertising – estimated at £200m a year – and the nature of alcohol advertisements "help create the climate in which alcohol is seen as an indispensable adjunct to almost all social occasions."

The drinks industry, through the Advertising Association, set about a spirited defence. Advertising, according to the association, was about brand share, not the manipulation of the young, or the old, to drink more than they otherwise would. Consumption of alcohol had fallen in Britain by 3.6 per cent since 1980, while advertising expenditure had risen by 21 per cent.

The association's arguments must have been persuasive. Mr Wakeham says: "We discussed banning advertisements, but nobody could prove to me whether advertisements increased consumption or not."

His committee was concerned about some alcohol advertising, including the use of humour in beer advertisements. The Independent Broadcasting Authority and the Advertising Standards Authority were asked to take a fresh look at their codes of practice. The IBA has a statutory code for television advertising and the ASA polices the voluntary code for all other advertising.

Action on Alcohol Abuse (AAA) – set up by the Conference of Medical Royal Colleges in 1983 – is among the sternest critics of the way advertising agencies interpret the codes. It points out, for example, the clause in the IBA code which says no liquor advertisement may feature a personality whose example young people are likely to follow. Beer advertisements tend to be targeted at the 18 to 25-year-old male with a high disposable income. But market research shows that these advertisements – which include one series featuring the youthful television interviewer Jonathan Ross, and another starring a cuddly bear – are particularly popular among children.

This is strong ammunition for the anti-alcohol lobby and the Wakeham group's request has caused serious questions to be asked within the advertising and drinks industries. It is expected that within the next two months some adjustment of the codes will be proposed by both the IBA and the ASA.

The Wakeham Committee appears satisfied with the advertising industry's response. Mr Wakeham says: "So far everybody seems to be co-operating. One cannot rule out intervention by Government, but that does not seem likely."

But if advertising is simply about brand share and not about increasing the size of the market, why has the drinks industry been so worried? Mr Peter Mitchell, a director of United Distillers Group, the Guinness spirits subsidiary, says the industry's critics see advertising as a relatively easy target, which, if eventually curtailed, could open the door to greater restrictions on the whole of alcohol marketing.

The Masham committee recommended that alcohol sold in Britain should carry a health warning. Making this obligatory is unlikely in the present climate but it is a nagging worry for the industry. Through the BMA, it has in the past sponsored a campaign urging pregnant women not to drink. And the Scotch Whisky Association and the Brewers Society have pioneered several campaigns designed to promote sensible drinking.

But recently there has been a growing body of opinion within the industry that it should defend itself more actively. This school of thought is not merely worried by possible government action, but also by what is described (in the words of the Scotch Whisky Association) as "the reckless and irresponsible use of false or misleading figures" linking alcohol with specific percentages of crime, accidents and violence.

There are tensions within the industry because of the growth of large drinks groups whose interests do not always coincide with those of the smaller companies. For example, some regional brewers would have secretly welcomed restrictions on the advertising of nationally advertised brands.

These have been among the factors in the creation of a new organisation, yet to be publicly announced, called the Portman Group, whose membership is drawn from the seven largest British drinks companies and Seagram, the Canadian liquor company. Members are still setting its aims and priorities, but the main thrust will be the promotion of sensible drinking and strategies to combat abuse.

Research into alcohol is a growth area, with claim and counter-claim about its physical effects jostling for attention. Alcohol, according to the World Health Organisation, is the third biggest killer after heart disease and cancer. The Portman Group, like several other bodies involved with the drinks industry, recognises the need for sponsorship of high quality research.

But it is a delicate matter, with the industry aware of the danger that results giving alcohol a clean bill of health could lead to accusations that the research was not truly independent.

Just how successful industry initiatives like the Portman Group will be in agreeing strategies for promoting sensible drinking is yet to be seen. In the US, for example, a not disinterested campaign by Seagram, one of the world's biggest spirits companies, to show that a measure of spirits had the same alcoholic strength as half a pint of beer or a glass of wine provoked anger among brewers.

The Portman Group is aimed, initially at least, at the UK market but there will be close co-ordination with similar bodies in other countries. It is an international problem: British companies such as Guinness, IDV and Allied Lyons are now world players and need to take international perspectives.

The big drinks groups say they cannot evaluate how the anti-alcohol lobby might affect profits. Mr Tim Ambler, a director of IDV, the Grand Metropolitan drinks subsidiary, says: "The forecast for world alcohol consumption is not upwards and the anti-alcohol lobby is a factor in that."

IDV, along with Guinness, has been at the forefront of those drinks companies pursuing a strategy to exploit the mood of moderation by "adding value" to their products so that if people drink less, they may drink higher priced drinks.

Mr Ambler argues that, in time, the tactics of the anti-alcohol lobby could alienate the moderate drinker. "The industry," he says, "has to take on a lot of charges which are just not true. We have to be positive in answering them. For example, the research concerning alcohol and breast cancer was flawed, but the response from the industry was too little and too late."

Lombard

Case for a little 'short-termism'

By Samuel Brittan

THE DIFFICULTIES of diagnosing the health of the British economy have been highlighted by the latest batch of indicators. They show vacancies rising, unemployment falling, sterling popular, investment intentions buoyant. Yet the official index shows no increase in manufacturing output in the first quarter.

A good deal of light on this discrepancy is shed by Professor Douglas McWilliams, chief economist at IBM/UK, in his inaugural lecture at Kingston Business School (to be delivered on Wednesday May 25).

Even over a longer term there is a discrepancy between the official statistics and the view of knowledgeable observers such as Mr Toshio Yamazaki, former Japanese Ambassador to Britain, who has said: "If there were an Olympics for business, Britain would be winning gold medals."

He is firmly on the side of the optimists. But he points out how difficult it is to take into account structural change in official statistics. The source of many of the difficulties is in services, where output and productivity are notoriously difficult to measure.

Looking at the large increase in net capital per worker in services, and the investment in data processing, there has probably been a spurt in service productivity not shown in the official estimates. Even in the manufacturing sector there are difficulties in distinguishing volume from value.

Identified sources of underestimate alone are sufficient to raise the average annual UK growth rate since 1979 from just below 3 per cent to over 4 per cent – enough to put the UK near the head of any international league. These upward reassessments are plausible. Douglas McWilliams reminds us that the official average annual growth estimates for the once-derided 1930s have been revised upwards by 1.5 per cent from when they were first published.

His answer to "What has changed?" is in two words: "financial pressure." This was partly the 1979-81 recession which, after years of weak profits, acted as "an electric shock." I will add that the shock took the form of an overvalued pound, which decimated companies that could not cut their costs. But because one electric shock brought benefits – as well as severe social and economic costs – this does not mean that a second or third shock would be a good idea. Or that shock treatment which was defensible when inflation was 18 per cent is so when inflation is down to 4 per cent.

Professor McWilliams adds that the desirable shock impact of the 1979-81 recession was augmented both by more sophisticated domestic financial markets and the globalisation of these markets following the abolition of exchange control in 1979. The combination made it impossible for firms to survive with a return below the going international average.

"A consequence has been the growth in mergers, acquisitions, demergers, sell-offs, management buyouts and contracting out." Perhaps most important of all has been the increase of self-confidence. There has been both pressure to improve, and a massacre of 1970s excuses.

Professor McWilliams believes that the "short termism" of the financial markets is not entirely a bad influence. Well run companies are not greatly inhibited. "The short term results provide the financial strength to support the longer term strategy."

But "those companies where there is financial pressure to massage the short term profits figures by cutting down spending on marketing, training, research and so on" often have a background of weak financial performance in the past, "in which case caution in investment, if regrettable, is probably advisable."

My instincts are with the optimists. But care is needed in the conclusions drawn. More dynamic performance and more rapid growth do not mean that the exchange rate can be viewed with indifference; or that the British economy could adjust to sterling overvaluation as the Japanese economy has done to that of the yen. Optimism does not mean throwing commonsense to the winds.

Letters to the Editor

The pound and performance

From Mr Geoffrey Mills.

Sir, It was Lenin who pointed out that the surest way of destroying a nation is to debauch its currency. But the Bank of England and the Treasury (FT, May 18) – as well as the average British director – tell us that the exchange rate is high. May I suggest, in contrast, that it is disturbingly low?

Just two years ago the pound sterling was at Deutsche Mark 3.4 (3.2 today), Swiss franc 2.8 (2.6) and yen 253 (234). It had fallen, almost unchecked, for two decades from DM11.0, SFr12.0 and Y1,000. During that period the British share of world trade in manufactured exports had also fallen, almost unchecked.

Meanwhile German and Japanese shares had both continued to rise in parallel with the continuously rising value of their currencies. The only part of that period when the pound actually rose for a while, 1979-80, was also the only part of that period when the British share of world exports actually rose (FT, "Parliament & Politics," June 5 1981). When the pound began to fall again, so did the British share.

Through all of that period, and despite the embarrassing accumulation of evidence to the contrary, the Confederation of British Industry (CBI) and the average British director pleaded that everything would be just marvellous if only the pound could fall a little bit further. Must we therefore conclude that the average British director has lost the ability to compete without a crutch?

Geoffrey Mills,
43 Whetstone Close,
Edgbaston,
Birmingham

If intended for publication, letters to the Editor of the Financial Times should include, where possible, the writer's daytime telephone number.

Upwards, not outwards

From Mr Thomas Bulford.

Sir, I can see no justification whatever for new building on undeveloped land (FT leader, May 11).

Here in Hong Kong almost all of us live in blocks of flats, many of towering height, the very thought of which would no doubt appal many Englishmen. However, the days when the keys to a high-rise flat opened the door to insecurity, inconvenience and squalor are now behind us – as the Barbican Centre in London, for example, demonstrates.

Flats do not appeal to everyone, especially those with families. But for many single or elderly people they offer many advantages over the Victorian terrace or suburban semi. Mr Ridley should look not outwards but upwards: there lies the answer to his dilemma.

Thomas Bulford,
Flat 8, Kellett Grove,
7-9 Mt Kellett Road,
Peak,
Hong Kong

Settlements backlog is diminishing

From Mr George Hayter.

Sir, The criticisms of the settlement policies made by Mr Colin Grimsey, which you reported in your paper (May 17, "Settlement Policies criticised by Chase Banker") are of rapidly diminishing relevance to the current position in the London stock market.

Since the exchange set up its task force in August 1987 the quantity and value of unsettled bargains has decreased by over 70 per cent; it continues to decrease, each and every month. In particular the introduction of new disciplines and procedures, such as central buying in, has encouraged and enabled firms to tackle the backlog of long-outstanding cases.

The shortage of properly qualified staff in back offices, which Mr Grimsey identified as a key part of the settlements problem, is fully recognised by the exchange. Training courses have been introduced to deal with specific, commonly encountered, problems – and these have been attended by over 1800 people across the country. In the longer term the exchange is investigating the development of the securities industry examinations to improve professionalism in the settlements area.

The concern of US investors – which Mr Grimsey reports – at the need to hand over certificates four or five days before being paid, arises from a misunderstanding of the London settlement system. The arrangements for early deposit were designed into the Talisman system with the help of the investing institutions, and the security provisions are fully appreciated by them. In the nine years of Talisman operation there have been no security problems.

Many of the other problems which Mr Grimsey associates with the need to handle physical stock are already the target of the exchange's Taurus service which will be introduced in 1989. Taurus (Transfer and Automated Registration of Uncertified Stock) is a computer-based service which will eliminate the need for shares to be held and transferred in physical form.

Taurus will go one stage further than the US settlement system by providing facilities not only for institutions but also for individual investors to have stock registered in their own names, and thus have a direct relationship with the companies in which they hold shares.

George Hayter,
The Stock Exchange, EC2

Take the A-Team . . .

From Mr H.J.Spence.

Sir, I cannot agree with Observer's criticism (May 17) of Sir William Rees-Mogg's warnings of possible statutory regulations which may be used to curb violence on television.

I suspect that some of those who so strongly seek to preserve broadcasters' total freedom do not have young children, and have never observed the dramatic effect on their behaviour through watching such programmes as *The A-Team*. The adverse effect of these programmes on my two young sons is certainly quite noticeable.

Those broadcasters and journalists who so strongly support their "freedom" may well privately restrain their own children from watching these programmes, preferring them to engage in music lessons, computer studies or other middle class children's activities. In this way they may be rather like architects who designed tower blocks in the 1960s for other people to live in, but whose practical experience of life in this environment was nil.

H.J. Spence,
Orchards,
5 Berwyn Road,
Richmond, Surrey

From Mr P.J. Pace O'Shea.

Sir, Your front page world news column reported (May 17) that Sir William Rees-Mogg, who has been named chairman of the new Broadcasting Standards Council, has singled out the hit series *The A-Team* as the type of programme he would ban.

No doubt this is not the only series on his list. In case they have been overlooked, may I suggest that he consider banning *The Pink Panther* and *Tom and Jerry* from our screens? I am sure there are many like me who find the mindless violence of their antics deeply offensive.

P.J. Pace O'Shea,
13 Westchester Drive, NW4

The judgment in 'the Lego case' must be carefully interpreted

From Mr Trevor Bell.

Sir, I wish to dispel the erroneous impression which may be derived from the interpretation which your legal correspondent put on the Privy Council decision in the case of *Interlego A.G. v Tyco Industries Inc.* ("the Lego case") in the Financial Times of May 12.

That judgment established, *inter alia*, that the pre-1973 Lego drawings were designs capable of being registered under the 1949 Registered Designs Act.

As such, because they were made prior to 1973 when the UK Copyright Act 1956 was extended to Hong Kong, they were subject to the transitional provisions in section 7 paragraph 8(2), which states that copyright shall not subsist in any artistic work made before the commencement of the Act (in this case January 1973) which was a design capable of registration and was used or intended to be used as a model to be multiplied by any industrial process.

However, for designs made after the commencement of the 1956 Act, the Design Copyright Act 1968 amended the 1956 Copyright Act, and provides for a period of 15 years copyright to designs which are applied industrially and are or are capable of being registered. It is generally considered that designs not capable of being registered, because they are purely functional, enjoy at present copyright protection for the full term of the life of the author plus 50 years.

Accordingly, the impact of the Copyright, Designs and Patents Bill is unlikely to be diminished by the judgment in the Lego case.

Trevor Bell,
Vaudrey, Osborne & Mellor,
13 Police Street,
Manchester

A.H. Hermann writes:

Mr Bell is right in saying that the Privy Council decision did not remove the copyright protection of functional designs. But it has weakened it so much that it will be hardly practical to invoke it for articles made on the basis of engineering drawings.

FINANCIAL TIMES

Monday May 23 1988

Janet Bush
on Wall Street

A nose for undervalued companies

"OUR STYLE does better when the stock market is dull and boring. In a wild bull market, the Standard & Poor's does very well and stock selection is less important. When the market is trendless, investors look for companies which are doing something exciting."

So says Mr James Awad, president of Brean Murray, Foster Securities, the first quarter's top performing money manager.

Its managed fund for institutional clients was up 27.4 per cent and its less aggressive fund for individual investors was not far behind with growth of 21 per cent – not bad considering the 0.8 per cent rise in the S&P.

How does Brean Murray, a company which employs only about 100 people, so outperform the indices (not to mention the very largest Wall Street securities houses with their armies of stock analysts and high profiles) which for many of the major US pension funds become the basis of their exposure to stocks?

The answer seems simple: old-fashioned, tried and tested valuation tools and a small group of extremely experienced analysts with a nose for undervalued companies (qualities recognised by Banque Paribas Capital Markets which is marketing its US research product worldwide).

Mr Brian Fernandez, director of research, says the best possible stock has low risk, tremendous value and has often been misperceived by investors (and probably more often their brokerage) and is therefore undervalued.

At the heart of Brean Murray's stock picking is a formula known as cash-on-cash return, the brainchild of analyst Mr Robert Jordan who has been with the company since 1981 when he left Drexel Burnham Lambert.

Basically, this valuation technique assumes the investor buys an entire business to get a cash return on hisinvestment, just as a businessman would. The investment is the market price plus year-end net debt less cash. The return is cash flow from earnings before interest and tax plus depreciation and amortisation.

The advantage of this technique over price/earnings ratios, Mr Jordan explains, is that cash return takes into account varying levels of debt.

Having said that, Brean Murray's analysts also look at formulas such as P/E ratios and the like. As Mr Fernandez says: "We are not hopelessly in love with any one arithmetical formula."

The company provides ample proof that you do not need to use computer models or any of the complex derivative products which became so much a part of investing in the heady days of the 1980s bull market. "We must be the most anti-computer people in America," Mr Fernandez says, with a mixture of glee and relief.

Brean Murray expects to do even better this year than last, partly because the October crash had taken the excesses out of the market which made proper valuation of companies a nonsense. In a stable, even tedious market, this is exactly what gives the investor value-added. In the first nine months of last year, its institutional fund was up 34 per cent against the 24.7 per cent in just the first quarter of this year.

Its stable of analysts have already scored notable successes this year in picking dynamic, undervalued companies. On its list of recommended stocks have been Goodyear, Firestone, American Standard, FlexiVan, Roper, Lucky Stores, American Standard and Amfac, all of which have seen very large rises in their share prices related to takeovers or restructurings.

Not that the company is concerned to provide rich pickings for arbitrageurs who profit from the takeover of attractively priced companies and often go on to break them up to the detriment of jobs and many a local economy.

Brean Murray's forte is simply to pinpoint companies with long-term investment value and, of course, this is something recognised by the many companies who have launched takeover bids so far this year. "The only rational buyers in the stock market at the moment are companies. Individuals will come back when they recognise the value on offer," says Mr Fernandez. "If it is profitable to buy a whole company, it is profitable to buy a few shares of that company."

Talking to old-style stock pickers is infectious: after all the years when huge Wall Street trading houses grabbed the limelight, they make you feel companies in retailing or manufacturing are actually rather exciting.

This kind of enthusiasm may be the secret ingredient of Brean Murray's success. As Mr Fernandez says: "We all enjoy ourselves a lot. There's a lot of intelligence around here and a lot of stimulating ideas. These are people who have lives out of Wall Street. It is an analysts' paradise."

Roger Matthews reports on what lies behind a bizarre diplomatic fracas with the US

Singapore slaps hand that feeds it

THE FRACAS between tiny Singapore and the mighty US looks set to go down as one of the more improbable, even bizarre, diplomatic clashes. Each has requested the removal of a diplomat amid increasingly acrimonious accusations, almost entirely from the Singaporean side.

Headlines in the strongly government-influenced local press give some of the flavour: "Outsiders keep out"; "Stand up and show outrage, minister urges"; and "4,000 to hold protest rally against US".

All this is directed against a country which absorbs a quarter of Singapore's total exports, provides about a third of foreign investment and whose companies are among the biggest private sector employers on the island. In addition, it is a country whose defence role in the region Singapore strongly supports.

Brigadier General Lee Hsien Loong, Minister of Trade and Industry and son of Prime Minister Lee Kuan Yew, has abruptly cancelled a trip to the US next week aimed at attracting new investment. He said he had "better things to do."

Singapore's trade union organisation, which is headed by a senior minister, described the US bureaucracy as "sneaky, arrogant and untrustworthy," while Mr Goh Chok Tong, the first deputy Prime Minister, said the US was not out to destroy Singapore but merely to exercise greater influence over its political life.

The immediate cause of this verbal violence is Mr Mason "Hank" Hendrickson, until recently First Secretary at the US embassy. He stands accused by the Singaporean Government of meddling in the country's domestic affairs by encouraging lawyers to run against the ruling People's Action Party in general elections expected to be held later this year. Said one of the newspaper headlines: "Hank, a black operator caught with hand in the political till."

The PAP holds all but two of the 79 parliamentary seats and Mr Goh has warned that if between five and 10 American-influenced candidates were to be elected the consequences could be serious.

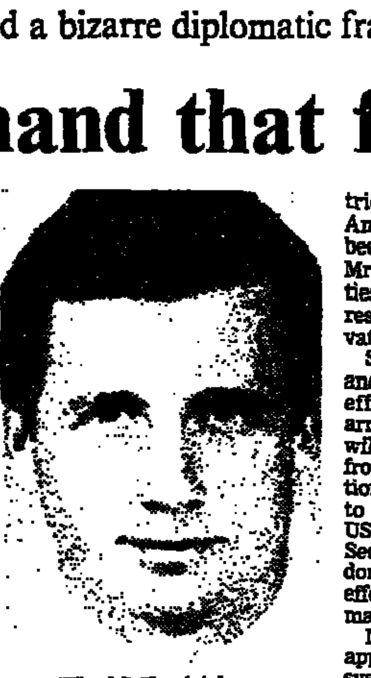
The evidence against Mr Hendrickson made public so far is based largely on the testimony of Mr Patrick Seong, a lawyer, made after he was arrested on April 19 under the Internal Security Act, which allows for indefinite imprisonment without trial.

Mr Seong, who was released last week after being held for a month, said he had met Mr Hendrickson three times in 12 months, all in public places. At the last meeting, attended by a more senior State Department official described as "Mr X," Mr Hendrickson is said to have made his suggestion that lawyers opposed to the Government should become election candidates. Mr Hendrickson is also alleged to have said that money should not be a problem for the candidates.

The next person to be arrested was someone well known to diplomats, Mr Francis Seow, former solicitor-general and ex-president of the Law Society. Official investigations showed that he had also met Mr Hendrickson.

Mr Seow had been trying through the courts to win the release of Mr Seong and several young professionals officially described as Marxist plotters who were detained the same day as Mr Seong under the Internal Security Act.

Mr Seow was also planning to be an opposition candidate at the election. He has been held without access to his family or lawyer while the Government investigates how he managed recently to pay off financial debts and "to



"Hank" Hendrickson: accused of meddling

determine his place in the scheme that was being hatched."

The Singapore Government has yet to draw these threads together and make more precise accusations, but the mounting implication is that it believes itself to be the target of a plot by the Central Intelligence Agency of the US.

One newspaper told its readers: "The archetypal Ugly American paid a surreptitious call to Singapore recently, leaving behind a trail of clues that led all the way to Washington."

The US Government has protested vigorously that Mr Hendrickson was merely fulfilling his diplomatic duties and did nothing improper. State Department officials are furious at the accusations which they describe as baseless. Some American businessmen living in Singapore have also been distressed by the strongly anti-American tone of recent pronouncements.

Diplomats say normal practice between two such friendly countries would have been for the American ambassador to have been called in and warned about Mr Hendrickson's alleged activities and the two governments to resolve the issues quietly and privately.

Several diplomats, Western and Asian, see another important effect of the Government's arrests and accusations – that it will deter opposition candidates from standing in the next election. "Whatever the background to the accusations against the US, the result is that Mr Francis Seow's group, which might have done well at the polls, has been effectively smashed," one diplomat said.

Last week, parliament approved changes to the electoral system which the country's lone opposition MP has said are aimed at making it more difficult for people such as himself to get into parliament. Earlier, an opposition candidate at the last election was ordered to pay damages of S$500,000 ($250,000) for slandering the Prime Minister and his cabinet in the last campaign three and a half years ago. It is believed to be the largest award ever made in Singapore. The defence argued for modest damages because the timing of the hearing was greatly to the Prime Minister's benefit.

To an increasing number of foreign diplomats and to some sceptical Singaporeans, the Government's actions in the past 12 months smack more of domestic repression than foreign interference.

What might help dispel that impression is if the Singapore authorities produced, as promised, more convincing evidence of an American plot. If it can, the spotlight will swing to Washington. If it cannot, Singapore's standing in the international community may have suffered a serious reverse.

Nationalist party leaders sacked in Gorbachev coup

BY QUENTIN PEEL IN MOSCOW

COMMUNIST PARTY leaders in the Soviet republics of Armenia and Azerbaijan were sacked from their posts at the weekend, in an attempt by Moscow to reimpose its authority after months of ethnic unrest and nationalist demonstrations.

Both men were sacked at meetings attended by top party leaders from the capital, leaving no doubt about the role of the central leadership in the dismissals.

The sackings amount to a coup for Mr Mikhail Gorbachev, the Soviet leader, who had long sought to get rid of Mr Karen Demirchyan, First Secretary of the Communist party in Armenia since 1974.

He was a regional party boss of the Brezhnev era, whose administration was accused of corruption and complacency in the Soviet press. Yet he survived a personal attack by Mr Gorbachev last year for his failure to implement real reforms, providing a graphic illustration of the limits on the Soviet leader's authority.

His counterpart in neighbouring Azerbaijan, Mr Kyamran Bagirov, appears to have been axed, partly in the interests of even-handedness, in a potentially explosive situation.

However, both party leaders have been suspected in Moscow of failing to restrain the nationalist passions of their supporters during the disturbances of recent months.

The party leadership in Armenia was noticeably silent when hundreds of thousands of Armenians took to the streets in February to demand the neighbouring Armenian-populated enclave of Nagorno-Karabakh, in Azerbaijan, be transferred to their republic.

When Azerbaijanis in the industrial town of Sumgait took a bloody revenge, leaving 32 dead in a race riot, it was widely suspected that the attacks were condoned by the party leadership.

The meeting in Baku, Azerbaijan, was attended by Mr Yegor Ligachev, Mr Gorbachev's effective deputy, and widely regarded as a leader of conservative elements seeking to restrain the pace of the Soviet leader's economic and political reforms. His presence suggests that any speculation on an alliance between old-style nationalists and ideological conservatives to resist reform is at least premature.

In Armenia, the successor is Mr Suren Arutyunyan, 49, previously Deputy Prime Minister. Mr Abdul Vezirov is the new leader in Azerbaijan. He was ambassador in Pakistan when that country was supporting anti-Soviet guerrillas in Afghanistan.

Long battle expected for Chemical's UK offshoot

By David Barchard in London

A LONG battle between a large number of bidders is looming in the sale of Chemical Bank's UK mortgage subsidiary, Chemical Bank Home Loans. It will be one of Britain's biggest mortgage company sales with a gross value of £1.3bn ($2.4bn).

Mr Robin Binks of Warburg, the London merchant bank which is advising Chemical Bank, said Japanese, French, and even one of two American institutions have shown interest in buying the operation. Some of the potential bidders are said to be European Community financial institutions interested in gaining access to UK retail financial markets well in advance of 1992.

"A very large number of institutions have expressed interest in the sale," Mr Binks said. "Around 50 confidentiality letters have been sent out, following more than 100 initial inquiries. Of these 30 so far have been returned for the information memorandum."

A management buy-out consortium, headed by Mr David Cameron Moore, managing director of Chemical's mortgage company, is among the bidders.

The British subsidiary, which is based at Cardiff, South Wales, is Chemical's only retail activity outside the US. The bank said the operation had "no synergies with the rest of its existing business."

It has, however, insisted that the business is sold as a single working entity, rather than break up the mortgage book into smaller parts.

The sale of a company which put on £650m of business in 1987 alone, has caused some surprise. Chemical Bank says it was taken reluctantly.

Preliminary offers will have to be submitted by June 1, after which a shortlist of suitable purchasers will be drawn up.

The names of several Japanese banks as well as that of Crédit Agricole of France, have been mentioned most persistently as the likely buyers.

Grosz succeeds Kadar as party chief

Continued from Page 1

edented forms. He was openly accused of exacerbating a "crisis of confidence" within the party and the nation.

In an emotional closing address yesterday Mr Kadar appealed to the party not to concentrate solely on the nation's severe economic difficulties and political unrest but to remember the achievements of past years.

"Is it a sin to speak of results instead of only mistakes?"

In a barbed reference to the opposition against him, Mr Kadar noted that when he was a child the parish priest told him "you have heard many bad things about us. But if we sin we will be cast into the deepest pit of hell."

Mr Kadar noted that the higher the post one occupied the "more serious the retribution." Delegates, however, ignored his entreaties and warnings and proceeded to the business of electing a new post-Kadar leadership.

Kadar is the first East bloc leader to relinquish power after such an open debate of the merits of his leadership. When Mr Gustav Husak, Czechoslovak party leader was replaced last December, the switch was made at a Central Committee meeting.

Bush faces a sticky campaign problem

Continued from Page 1

Treasury Secretary (where he has been helping to ensure that Mr Bush has the solid prop of a buoyant economy under his feet in November) and coat his old friend in some of the Teflon he helped Mr Reagan with at the beginning of the decade.

For both men it is of course a difficult question of timing. The economy looks set to be strong for the next few months, but the financial markets are nervous and the departure from the Treasury of the man most intimately connected in investors' minds with the managed devaluation and apparent stabilisation of the dollar, might cause investors to worry more about what might happen in the pre-election period than is already the case.

Mr Bush's fundamental problem is that Mr Reagan's popularity does not seem to be transferable to him, but he must be careful in repudiating parts of the Reagan legacy which are a political burden for fear of alienating ardent Reagan supporters.

In the past few weeks he has, however, begun more aggressively to try to carve out a more independent political identity. Last week, for example, in his most significant break with the White House, he distanced himself from the politically unpopular proposal to drop drug trafficking charges brought in Florida against Panamanian strongman General Manuel Noriega.

Earlier this month in Seattle, Mr Bush took a more aggressive pro-environmentalist line than conservative Reaganauts favour, saying the time for studying the acid rain issue is over and "we have got to take effective action."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	[illegible]	[illegible]	Dubrovnik	S	[illegible]	[illegible]	Malta	S	[illegible]	[illegible]	Rhodes	S	[illegible]	[illegible]
Algiers	S	[illegible]	[illegible]	Edinburgh	S	[illegible]	[illegible]	Manchester	S	[illegible]	[illegible]	Rio de Jo	S	[illegible]	[illegible]
Amsterdam	S	[illegible]	[illegible]	Faro	S	[illegible]	[illegible]	Melbourne	C	[illegible]	[illegible]	Rome	S	[illegible]	[illegible]
Athens	S	[illegible]	[illegible]	Florence	S	[illegible]	[illegible]	Mexico City	S	[illegible]	[illegible]	Salzburg	S	[illegible]	[illegible]
Bahrain	S	[illegible]	[illegible]	Frankfurt	S	[illegible]	[illegible]	Miami	S	[illegible]	[illegible]	San Francisco	S	[illegible]	[illegible]
Barcelona	S	[illegible]	[illegible]	Funchal	S	[illegible]	[illegible]	Milan	S	[illegible]	[illegible]	Seoul	S	[illegible]	[illegible]
Beirut	S	[illegible]	[illegible]	Geneva	S	[illegible]	[illegible]	Montreal	S	[illegible]	[illegible]	Singapore	S	[illegible]	[illegible]
Belfast	S	[illegible]	[illegible]	Gibraltar	S	[illegible]	[illegible]	Moscow	S	[illegible]	[illegible]	Stockholm	S	[illegible]	[illegible]
Belgrade	S	[illegible]	[illegible]	Glasgow	S	[illegible]	[illegible]	Munich	S	[illegible]	[illegible]	Strasbourg	S	[illegible]	[illegible]
Berlin	S	[illegible]	[illegible]	Guernsey	S	[illegible]	[illegible]	Nairobi	C	[illegible]	[illegible]	Sydney	S	[illegible]	[illegible]
Biarritz	S	[illegible]	[illegible]	Helsinki	S	[illegible]	[illegible]	Naples	S	[illegible]	[illegible]	Tangier	S	[illegible]	[illegible]
Birmingham	S	[illegible]	[illegible]	H. Kong	S	[illegible]	[illegible]	Nassau	S	[illegible]	[illegible]	Tel Aviv	S	[illegible]	[illegible]
Blackpool	S	[illegible]	[illegible]	Innsbruck	S	[illegible]	[illegible]	New Delhi	S	[illegible]	[illegible]	Tenerife	S	[illegible]	[illegible]
Bordeaux	S	[illegible]	[illegible]	Inverness	S	[illegible]	[illegible]	New York	F	[illegible]	[illegible]	Tokyo	S	[illegible]	[illegible]
Boulogne	S	[illegible]	[illegible]	Istanbul	S	[illegible]	[illegible]	Nice	S	[illegible]	[illegible]	Toronto	S	[illegible]	[illegible]
Bristol	S	[illegible]	[illegible]	Jersey	S	[illegible]	[illegible]	Nicosia	S	[illegible]	[illegible]	Tunis	S	[illegible]	[illegible]
Brussels	S	[illegible]	[illegible]	Jo'burg	S	[illegible]	[illegible]	Oporto	S	[illegible]	[illegible]	Valencia	S	[illegible]	[illegible]
Budapest	S	[illegible]	[illegible]	Las Palmas	S	[illegible]	[illegible]	Oslo	S	[illegible]	[illegible]	Venice	S	[illegible]	[illegible]
B. Aires	F	[illegible]	[illegible]	Lima	C	[illegible]	[illegible]	Paris	S	[illegible]	[illegible]	Vienna	S	[illegible]	[illegible]
Cairo	S	[illegible]	[illegible]	Lisbon	S	[illegible]	[illegible]	Perth	S	[illegible]	[illegible]	Warsaw	S	[illegible]	[illegible]
Cape Town	S	[illegible]	[illegible]	London	S	[illegible]	[illegible]	Prague	S	[illegible]	[illegible]	Washington	S	[illegible]	[illegible]
Caracas	S	[illegible]	[illegible]	Los Angeles	S	[illegible]	[illegible]	Reykjavik	S	[illegible]	[illegible]	Wellington	S	[illegible]	[illegible]
Casablanca	S	[illegible]	[illegible]	Luxembourg	S	[illegible]	[illegible]					Zurich	S	[illegible]	[illegible]
Chicago	S	[illegible]	[illegible]	Luxor	S	[illegible]	[illegible]								
Cologne	S	[illegible]	[illegible]	Madrid	S	[illegible]	[illegible]								
Copenhagen	S	[illegible]	[illegible]	Majorca	S	[illegible]	[illegible]								
Corfu	S	[illegible]	[illegible]	Malaga	S	[illegible]	[illegible]								
Dublin	S	[illegible]	[illegible]												

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Islamic investment move

Continued from Page 1

action of suspending transactions was taken because of fears of a government-inspired run on the companies, whose depositors number tens of thousands of Egyptians, many of them small investors.

"Basically, what is happening is the collaboration of the giants who are putting their hands together to ensure their survival," a spokesman said. "Divided we are ruined. Hand in hand we may pull through."

Officials are concerned that the collapse of a big investment house would have serious political consequences if it could be claimed that the Government was negligent in regulating the unruly sector.

The authorities fear that hundreds of millions of dollars being held outside Egypt in the names of the principals of these investment houses may be vulnerable.

Western and local bankers criticise the Government for moving too slowly. They believe that it will now be very difficult for the authorities to bring these institutions under control without causing serious disruption in the whole sector.

THE LEX COLUMN

Taking the deficit to Japan

A borrower which needs to raise $150bn a year is ill-advised to ignore the wishes of its biggest investors. The Reagan Administration, though, seems to be paying no attention to the increasingly urgent demands from Japan for yen-denominated bonds. While a Reagan bond may not be an option before the election – US voters would regard it as a national affront – Dukakis or Bush bonds might hold out enough economic benefit to persuade the new Administration to pay the political cost.

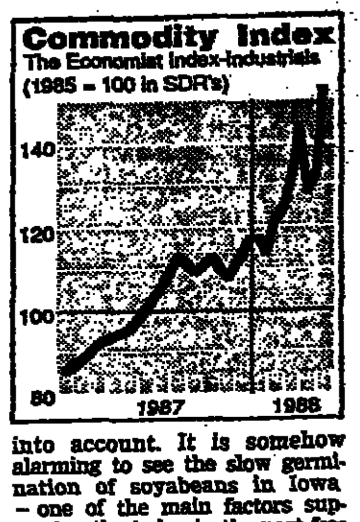
After the 50 per cent fall in the dollar against the yen in the last two years, Japanese investors have got tired of bearing the currency risk of the budget deficit. By contrast, the US Government should be happier to take that risk itself, provided it has greater faith in its own policies than the market has. (It might also remember that the much-maligned Carter bonds proved cheap finance, as they were issued in the late 1970s just before the dollar started to rise).

Assuming that the dollar gets no weaker, borrowing in yen would mean saving almost 5 per cent on the interest bill. The actual saving could be bigger again, as relative rates will presumably drift still further apart if Japanese investors continue to shun US bonds. Even though this month's auction was made a success by purchases from Japan, the new players are short-term traders; there is no sign that the big long-term investors – who two years ago could be relied on to buy a third of any issue – are returning to the market.

For a company to mismatch its assets and its liabilities in this way would be grossly imprudent. But countries are not like companies in this respect, and the US is unusual among the developed nations in having scruples about spreading its borrowing in this way. Of course, there are risks involved; but it is rather late to start thinking about that now.

Commodity prices

Obviously, the US bond market is not alone in seeing commodity prices as a leading indicator of inflation: even the G7 seems to think the right commodity price index could be a useful policy tool. But the foundation for the bond market's current worries – the fact that the US Commodity Research Bureau's index of futures prices rose to a three year high last week – seems faintly ludicrous when the agricultural bias of the index is taken



into account. It is somehow alarming to see the slow germination of soyabeans in Iowa – one of the main factors supporting the index in the past few weeks – followed with quite such assiduous interest by a market which ought to have better things to think about.

But the CRB index is, of course, not the only commodity price measure to have risen sharply recently: the Economist Industrials index has climbed by nearly a third since the beginning of the year, driven largely by base metals prices; between May 10 and 17 alone, it registered an 8.5 per cent gain. But this too seems to be an imperfect indicator: while demand has undoubtedly remained strong because of higher than expected industrial growth, one-off supply constraints such as strikes at the mines have had a major impact. And with raw materials typically accounting for well under half of manufacturing costs the markets would do better to watch unit labour costs, which are looking subdued in the US, rather than paying too much attention to the exuberance of commodities.

Racal

Racal's hasty decision to float its telecommunications business, which resulted in the value of the entire group rising by close to a third overnight, appears to have given any predator pause for thought, judging by the subdued trading in the company's shares recently. However, the company's honeymoon may not last much longer. Racal promised almost three weeks ago that further details concerning the planned flotation of the company's crown-jewel would be issued "shortly", and investors are beginning to get impatient.

Given Racal's miserable share price performance over the last five years, many institutional shareholders will be understandably unhappy if, as seems increasingly likely, they are asked to put up money for the privilege of buying the best part of a company which they already own. Racal could be forgiven for following this route if it could prove that it needed the cash to invest in businesses which could rival the profitability of Vodafone. However, this is most unlikely, and unless Racal decides to do the decent thing and issue shareholders free shares in Vodafone on a pro-rata basis, the emergence of a predator could sorely test institutional support for a plan which seems designed to keep the company independent.

European food

The drama of Nestlé's bid for Rowntree has drawn attention to the remarkable consolidation going on in Europe's food industry. It has also led to the more questionable idea that the whole process is about brands. The logic is seductive enough: in the US, brand leaders are hugely profitable because of scale economies and nationwide advertising. In the same way, European brands should profit from 1992 to move out from their national boundaries and attack the unified market.

The snag is that confectionery brands are not typical of the industry. For various reasons, confectionery is not subject to serious competition from own label, and it is distributed and sold in peculiar ways. Few food companies can extend brands across frontiers, as Rowntree does. Unilever, Europe's biggest food company, is immensely powerful in frozen food and margarine in Britain and Germany; but it sells Birds Eye and Flora in one market, Iglo and Rama in the other.

The US brokers Salomon Bros go so far as to argue that the UK food companies which benefit from 1992 may not be branded producers at all. Over a decade and more, manufacturers' brands have steadily lost share in the UK grocery market to own label goods, at least partly because of centralised distribution systems. If European retailers catch up in this respect, there should be opportunity for UK own label producers like Hazlewood and Northern Foods, to say nothing of operators in basic foodstuffs like Hillsdown. The real branded giants like Nestle and Unilever will doubtless prosper too, but they would whatever happened.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday May 23 1988

INTERNATIONAL BONDS

Australian dollar sector keenly awaits Statement by Keating

MR PAUL KEATING, Australia's Federal Treasurer, will have a larger audience in the City of London than he probably either suspects or cares to contemplate when he makes his May Economic Statement on Wednesday, **writes Dominique Jackson in London.**

Australian dollar bond dealers will be alert for any signal by which to steer the future course of their market. The colourful Mr Keating has never been a fan of international financial markets and in the past has pulled more than a few surprises out of the bag during his annual address.

But in the Australian dollar Eurobond market, his words have never been more eagerly awaited. In the last 18 months, the sector has thrown off its shady image as a high risk and little-used funding area to become a fully fledged and mature market. The rally seen so far this year has been in sharp contrast to the gloom on other bond markets. However, a recent reversal has made many suspect that the bull run may not be sustainable.

Yields have fallen steadily since late last year, with both domestic and eurobonds buoyed by a startlingly strong currency – at recent highs against both the US dollar and D-Mark – rising commodity prices and a steady improvement in economic fundamentals. Yields on 10-year government issues fell from a peak of 13.6 per cent immediately after October's stock market crash to a low of around 11.5 per cent in early April.

Long bond yields in Australia are currently around 270 basis points above those in the US, against a 450 basis point margin after the crash.

A disappointing figure on April consumer price inflation and recent confusion over the Reserve Bank of Australia's monetary policy appear to have stalled this momentum for the time being. The 10-year yield has now risen to around 12 per cent. Although profit-taking by professionals appears so far to have been on a limited scale, the question is whether the sector can manage to remain completely immune from the inflationary and interest rate pressures which have dogged global bond markets so far this year.

Most sector analysts hold out that the May Economic Statement will be bullish for the market. Although the word from Canberra is that the Statement will not contain any detailed revenue projections, Mr Keating may drop some hints about the anticipated Federal Budget surplus for 1988-89. The bond market is gunning for a number between A$3bn to A$4bn, which would mean a substantial reduction in the government bond funding programme.

"Unless there is a change in the Prime Asset Ratio which requires trading and savings banks to hold minimum levels of government stock, this could lead to a considerable shortage of bonds next year," said Mr Simon Rubinsohn of ANZ Merchant Bank. "Even allowing for a generous repayment of external debt, the bond programme could be as low as A$1.8bn. The consequent scramble for stock can only help to boost the Euro-Australian sector further."

Using the primary market as a yardstick, 1988 still appears to be on course to overtake 1987 when new issue volume increased almost threefold to A$12.7bn from A$4.4bn in 1986. To date this year, more than 60 new deals have been launched with a total outstanding of over A$4bn.

Indeed, the sector has provided life boats for more than one syndicate team, eager to clock up deals but unable to work up investor appetites for the likes of US dollar bonds, and has also tempted some less likely houses to try their hand in the sector.

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,974.0	5.6	122.0	7,613.7
Prev	3,538.7	232.5	246.0	7,338.0
Other	3,723.4	0.0	710.6	1,173.2
Prev	3,052.0	5.1	993.6	986.7
Secondary Market				
US$	17,869.6	1,079.2	7,121.6	4,659.3
Prev	12,704.0	988.9	5,851.6	4,686.1
Other	22,769.0	1,086.2	3,724.9	27,664.8
Prev	18,542.3	1,393.8	3,021.0	18,150.0

	Cedel	Euroclear	Total
US$	11,648.1	28,786.9	40,435.0
Prev	9,870.2	25,715.6	35,585.8
Other	29,559.8	31,292.3	60,852.1
Prev	21,066.1	25,078.4	46,144.5

Week to May 19, 1988. Source: AIBD

Japanese giant Nomura International led a A$100m issue for the Australian Industry Development Corp last week. It was their first direct Australian dollar bond issues but is intended to be the first of many.

"Many Japanese investors took a healthy interest in the Euro-Australian dollar bond market in its formative stages but got their fingers badly burned when the Australian dollar sank in 1985. Now they are disillusioned with its US counterpart and are actively seeking alternative investments," said Mr John Kibble of Westpac Banking Corporation. "We are seeing heavy buying of both the Australian dollar and government bonds from Tokyo, but until liquidity in the eurobonds improves, the Japanese will probably hold off."

The liberalisation of Japanese investment restrictions should boost this trend. Investment managers have been taken aback recently by Japanese funds committing unprecedented amounts to Australian dollar fixed income investments.

The backbone of the market continues to be the Continental retail investor, with latest evidence showing that the West Germans who propelled the initial rally, helping Deutsche Bank to climb the lead managing lead tables, have been overtaken by investors in the Benelux and other European groups.

However, the absence of these investors on Ascension Day holiday earlier this month triggered a round of panic selling in London with professionals marking down the prices of several new issues by margins of three and four points.

"It's now clear that reaction was overdone, but it certainly calls into question the maturity and potential of a sector which is apparently dominated by the whims and wishes of that elusive creature, the Belgian dentist," noted one market analyst. "It will be interesting to see what effect today's Whit Monday Continental holiday has."

The Ascension Day panic and the hammering suffered by several of the more recent issues illustrates graphically the stop-start character of the primary market. The growth of the market has been largely determined by the parallel burgeoning of interest rate and currency swaps and more than 70 per cent of new Australian dollar paper still forms part of a swap transaction.

Gaping attractive swap windows always trigger a flood of new issues and as a result, the market is swamped with paper that is not always correctly priced nor for the appropriate borrower. This phenomenon seems set to hold the market back despite a progressive improvement in the quality of borrowers.

However, lower-rated banks and financial institutions still account for more than two thirds of new issues. Less appetising swap rates available so far this year have dissuaded many corporations who have used the market successfully in the past.

Last week, a A$60m three year deal at 13 per cent and 101½ for Belgian savings bank, Bacob, was snapped up by investors in the borrower's home region. However, a A$75m deal for the Rural and Industries Bank of Western Australia did not see the same interest. One dealer said the deal carried an optically attractive 13½ per cent coupon but had little chance coming on to an overfull market.

Australian economic fundamentals still look cautiously optimistic for the market. Despite heavy selling of the Australian dollar by the RBA in the last few weeks, the currency has continued to gain ground. Just as the Bank of England was obliged to cut base rates to slow sterling's ascent last week, the RBA could find itself forced to act.

However, Mr Keating's forecast of 6 per cent inflation by the June now seems premature. A major concern is that the slower deceleration of inflation will impair restraint on wages and Mr Keating's comments on the new wage accord with the unions will be carefully monitored.

● A SFr30m zero-coupon issue led by Samuel Montagu (Suisse) for the Kingdom of Denmark reported last week was a secondary re-offering of part of a 1987 private placement by Denmark and not a new offering, Denmark's Ministry of Finance said.

EUROCOMMERCIAL PAPER

Council of Europe's $500m programme set to receive a warm welcome

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT, IN LONDON

WHILE THE amount of outstanding Eurocommercial paper continues to grow – outstandings at the end of April are estimated at $61bn – the number of new programmes continues to tail off.

The assumption is that most of the borrowers who are going to tap this market have already announced programmes, and its future growth will come from increased usage of existing programmes.

Some borrowers are already thought to be on the verge of increasing programme size.

Against this background, the announcement of a new $500m programme for the Council of Europe Resettlement Fund will be welcomed in the market. The member states of the European Community back this borrower, which allows it a top (A1+/P1) credit rating.

The sovereign sector has been one of the most active areas of the market of late, partly due to the large pools of US dollar liquidity which central banks have to park in short-term paper.

The Council of Europe is the most important new borrower to come to this end of the market for some months, and – like Sweden, France and other prime borrowers – it should be able to issue at rates well below London interbank bid rates.

Morgan Stanley International arranged the programme, which has a specific option to issue in yen, and the other dealers are Bankers Trust, Daiwa Europe, and Swiss Bank Corporation Investment banking.

The sterling commercial paper market was two years old on Friday, an event which past almost without comment in the City of London, where there was not a string of bunting to be seen. There are now more than 100 borrowers with programmes but the growth in the amount of outstanding paper – to £2.86bn at the end of March – has been somewhat disappointing. Some 30 per cent of the paper is being held by institutions in the monetary sector, much of which is thus disguised bank lending.

Until now, the chemicals group ICI has been probably the best regarded name in this market. But that will probably change when Unilever, which announced a programme with no upper size limit on the market's second anniversary, starts to use a market it says it has been monitoring since its inception.

"The company believes there is now sufficent depth among both issuers and investors to justify the establishment of the programme," it said.

Unilever will start tapping the market in early June, and with its A1+/P1 rating, it expects to be able to achieve sub-Libid funding. If this happens – and the company aims to use the market as a regular source of funds, not merely when its yields versus the commercial bill market look attractive – it will be the first sterling CP borrower to consistently break the Libid barrier. Barclays de Zoete Wedd, County NatWest and Warburg are dealers on the programme.

First Leisure Corporation also established a programme, for £50m with Hill Samuel, with County Natwest and Morgan Grenfell as dealers.

In the syndicated credit market, banks are bidding this week for the $150m financing, over about eight years, for the Public Power Corporation of Greece.

Bank of America has been mandated to arrange a $150m financings over three years, extendible to five. It will be launched into syndication next week.

Manufacturers Hanover is arranging a £50m term loan with a 47-month initial maturity for Wagon Finance, the UK finance house. It will carry a 32½ basis point margin.

Big Dutch construction companies to merge

By Laura Raun in Amsterdam

NBM, the big Dutch construction company, and Amstelland, a rival builder, plan a merger to create the second largest construction company in the Netherlands.

The two companies would have annual turnover of Fl 1.7bn ($895m) and a payroll of 5,000. They said a merger would create a broadly-oriented construction company "with a large scale that is sufficient to be battle-ready for the further integration of Europe and to survive the possible increase in competition."

NBM will issue new shares to exchange with Amstelland, which is 33 per cent owned by the founding family, 40 per cent by DSM, the Dutch chemicals company, and 27 per cent by the Nederlandse Participatie Maatschappij, a venture capital company. NBM is publicly-quoted.

Negotiations are expected to be completed by July 1. No job cuts are envisaged.

NBM has a broad range of construction interests, mostly in the Netherlands. This includes utilities and housebuilding. It is also involved in environmental, trade and insulation activities.

Amstelland is involved in industrial, residential and utility construction as well as concrete renovation and project development in the Netherlands. In the US it is a wholesaler of building materials.

Venezuela to build caustic soda plant

By Joseph Mann in Caracas

THE VENEZUELAN Government's petrochemical company, Pequiven, is to spend $138m to build a caustic soda plant in the western state of Zulia.

The new facility will be designed to produce 134,000 metric tonnes of caustic soda and 120,000 metric tonnes of chlorine a year.

Fermenta back in the black at four months

By Sara Webb in Stockholm

FERMENTA, the Swedish animal health and chemicals group, showed a profit (before allocations and taxes) of SKr59m ($10m) in the first four months of 1988, against a loss of SKr63m in the comparable period last year, helped by its restructuring and the strong performance of its plant protection division.

However, the management warned that the improvement would not continue at the same pace in the rest of 1988, partly because the plant protection division's profits show seasonal variations with a decline in the second half, and partly because Fermenta no longer has remission on its interest payments.

Group sales fell by 37 per cent to SKr795m, due to the divestment of certain units. Sales of comparable units rose by only 5 per cent, however, and were held in check by the lower dollar.

Mr Bertil Holmberg, Fermenta's managing director, said the company was considering expansion, possibly in a completely new business area.

Amax buys back Chevron stake

BY ANATOLE KALETSKY IN NEW YORK

AMAX, the large US mining and metals company which has been undergoing extensive restructuring after a long period of poor financial performance, has bought back 15.2m of its own shares from Chevron, the San Francisco-based oil company, for $23 a share or $349m.

Chevron has for 14 years been the biggest individual shareholder in Amax and the deal brings to an end a sometimes stormy relationship between these two big natural resource companies.

Chevron acquired most of its stake in Amax in 1975 as part of a cautious move towards diversification in the wake of the first oil crisis. But in 1981 it decided to move into the mining business and made a full-scale takeover bid for Amax, hoping to use its large shareholding as a springboard for an agreed deal.

The price of $78½ a share, or $4bn for the whole company, which Chevron offered in 1981 was widely regarded as generous, but the Amax board decided to oppose the bid and this subsequently fell through.

Soon afterwards energy and natural resource prices began falling and Amax, which was *heavily dependent* on coal mining, moved deeply into the red.

Two years after its failure to acquire Amax, Chevron bought Gulf Oil for more than $12bn in the biggest merger of all time.

Over the years, Chevron slightly reduced its stake in Amax, which at one time exceeded 20 per cent, but a long term relationship between the two companies continued.

By last week, the Chevron holding amounted to 15.4 per cent of Amax common stock and the mining company paid a premium of about one-fifth above the market price to regain control of this strategic stake.

In addition to paying $23 a share, Amax has given Chevron an option to receive a one-time payment of up to $5 a share if the market price of Amax common stock should rise above $23 during the next two years.

The deal appeared to have been prompted more by Chevron than by Amax. Chevron said it was selling its shares because the large holding in a company uninvolved in Chevron's business was "not consistent with long-term strategy."

Mr Allen Born, the Amax president, said he regretted the end of a constructive relationship with Chevron, although he added that the deal was "highly advantageous" to Amax shareholders.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield
US DOLLARS							
Yamanouchi Pharm.♦‡	300	1993	5	3⅞	100	Nikko Secs.	3.375
Shin-Etsu Polymer♦	60	1993	5	(4⅛)	100	Yamaichi Int.	*
Interfinance Credit Nat.♦	50	1993	5	9½	101⅝	Daiwa Europe	[illegible]
Halifax Building Society♦	200	1993	5	9½	101¼	CSFB	[illegible]
AUSTRALIAN DOLLARS							
Australian Ind.Dev.Corp.♦	100	1993	5	12⅞	101⅞	Nomura Int.	[illegible]
Eurofima♦	125	1993	5	12½	101⅞	Warburg Secs.	[illegible]
Bacob Finance♦	60	1991	3	13	101⅞	Bankers Trust	[illegible]
Rural & Ind Bk We'n Aus♦	75	1991	3	13⅛	101⅞	CSFB	[illegible]
CANADIAN DOLLARS							
Fed Business Dev Bank♦	50	1990	2½	9⅞	100⅞	McLeod Young & Weir	[illegible]
Natl.Victoria & Grey Tst♦	100	1993	5	10⅛	101⅞	J.P.Morgan Secs.	[illegible]
Bk of Nova Scotia♦	100	1991	3	10	101⅞	UBS Secs	[illegible]
Nat Austalia Bank♦	75	1991	3	10	101⅞	UBS Secs	[illegible]
Barclays	100	1993	5	10⅛	101⅞	Kidder Peabody	[illegible]
DEUTSCHE MARK							
E.I.B.♦	200	1998	10	5⅞	99½	Bayerische Vereinsbk	[illegible]
Maxwell Communications‡♦	150	1993	5	6	100⅛	Bayerische Vereinsbk	[illegible]
Japan Highway P'lic Corp♦	250	1995	7	5⅞	100⅞	IBJ Germany	[illegible]
McDonald's Corp♦	100	1993	5	5⅜	100	Bayerische Vereinsbk	[illegible]
SWISS FRANCS							
Kurogane Kosakusho**§♦	20	1993	-	[illegible]	100	Royal Trust Bank	[illegible]
Teollisuuden Voima OY**♦	100	1995	-	4⅞	100⅞	Morgan Stanley S.A.	[illegible]
Top Denmark AS♦	100	1993	-	5	100⅞	Trade Dev. Bank	[illegible]
Maxwell Communications♦	150	1995	-	[illegible]	101	Swiss Volksbank	[illegible]
Okamura Corp	70	1992	-	(1⅛)	100	Handelsbank Nat West	4.146
Oppland Energiverk♦	150	1995	-	4⅞	101⅛	Credit Suisse	[illegible]
YEN							
Bergen Bank♦	12bn	1993	5	5	101⅞	Ind.Bk of Japan Int.	[illegible]
Shanghai Inv Tst Corp♦	15bn	1995	7	5⅛	101⅞	Nomura Int	[illegible]
Bergen Bank♦	10bn	1993	5	(a)	101⅞	Yamaichi Int	[illegible]
Western Aus Treasury♦	10bn	1993	5	5	101⅞	IBJ/Nikko Secs	[illegible]
Christiana Bank♦	4bn	1993	5	5	101⅞	Nomura Secs	[illegible]
Skopbank♦	5bn	1993	5	5	101⅞	IBJ	[illegible]
State Bk South Australia♦	10bn	1995	7	5⅛	101⅞	Nomura Secs	[illegible]
National Ausralia Bank♦	10bn	1995	7	5⅛	101⅞	Nomura Secs	[illegible]
FRENCH FRANCS							
A.B.Electrolux♦	500	1995	7	9.125	100⅞	BNP Cap.Mkts.	[illegible]
LUXEMBOURG FRANCS							
Skand.Enskilda Banken**♦	300	1993	5	7⅛	100	Bqe Generale Du Lux.	7.132
ECU							
Enso Gutzeit♦	100	1993	5	7⅞	100⅞	K-O-P	7.592
Merrill Lynch & Co♦	75	1990	2	7½	101.075	Merrill Lynch	6.906
STERLING							
Center Parcs§♦	60	1998	10	5⅞	100	Morgan Grenfell	5.758
Pearson Plc.(b)♦	100	2008	20	10⅛	99⅞	Baring Brothers	10.530
HMC Mortgage Notes No.3†♦	150	2015	(c)	(c)	100	CSFB	
Woolwich Building Soc.♦	75	1995	7	(d)	101⅛	CSFB	
Dixons Group PLC♦	90	1995	7	11	104⅞	JP Morgan Secs	10.149
British Airways	100	2008	20	10⅞	99.147	BZW/Lazard	10.928

*Not yet priced. **Private placement. §Floating rate note. †With equity warrants. ‡Convertible. (a) step up coupon 3½ for first two years, 6¾ thereafter. (b) partly paid. (c) 32½ basis points over 3 month libor, rising to 50 basis points after 10 years if not redeemed. Average life expected 6½ years. Also smaller B-tranche large enough to ensure a triple A rating. (d) coupon at 9¼ for first three years, thereafter 17 basis points over 6 month libor. Note yields are calculated on a AIBD basis.

GB-Inno steps up dividend

By David Buchan in Brussels

GB-INNO-BM, Belgium's largest supermarket group, has lifted 1987 group net profit 25 per cent to BFr1.9bn ($53.5m) from BFr1.5bn, and raised its net dividend for the year to BFr24.50 a share from BFr22.50.

Group turnover rose 9.9 per cent, with supermarket sales in *Belgium showing a slower trend* but turnover in fast food and DIY equipment abroad rising by 52 and 34 per cent, respectively.

GB-Inno's biggest foreign stakes are a 28 per cent share in Scotty's, a 65 *per cent majority* control of Handy Andy in the US, and a 25 per cent holding in Home Base in the UK.

In February, GB-Inno's share price rose to BFr1,700 on speculation that it might be a takeover target. But the price has since sunk back to around BFr1,200.

● Solvay, the Belgian chemical group, said it planned a major increase in capital and would issue a warrant bond to Solvac, the holding company which is its main shareholder, to strengthen itself against possible takeover attempts, Reuter reports.

Solvay's board said it would ask shareholders to approve the creation of authorised capital totalling up to BFr12.05bn, with up to BFr10bn earmarked for "securing the shareholder structure for the future."

At an extraordinary meeting on June 16, it would also seek approval to boost its capital to BFr30bn from BFr12bn by incorporating existing reserves.

CSR sells mineral properties

BY CHRIS SHERWELL IN SYDNEY

CSR, ONE of Australia's best known resource groups in the early 1980s, has neared completion of its transformation into an *industrial company* with the sale of its Australian mineral exploration and development activities.

The main element of the sale is CSR's 85 per cent interest in the Granny Smith gold prospect near Laverton in Western Australia. *Placer Pacific* will purchase 60 per cent, while Delta Gold will buy the rest, increasing its stake from 15 to 40 per cent.

Placer will also acquire CSR's other Australian mineral exploration properties, including the 70 *per cent-owned Kuridala gold* prospect in Queensland. Terms are still to be finalised.

CSR expects also to announce soon the sale of its remaining minerals activities in Indonesia, where it has 10 contracts of work on gold prospects. Once that is concluded, the group will have virtually extricated itself from its *minerals businesses*.

Last month, it sold its Indonesian tin mining interests to Renison Goldfields Consolidated. The company and its joint venture partner Pangea Resources have also recently terminated a gold *venture in Montana*.

In coal, the Western Australian group Rothwells is expected to buy CSR's Western Collieries operation, and all the group's other mines in New South Wales and Queensland are for sale. But CSR intends to hold on to its lucrative bauxite and alumina operations at Gove in the North*ern Territory* and its aluminium smelter at Tomago in New South Wales.

The group will now continue its specialisation in sugar and building products.

Canadian banks to raise Third World reserves

By Robert Gibbens in Montreal

CANADIAN CHARTERED banks must lift reserves to 45 per cent of their Third World loans, says the Office of the Superintendent of Financial Institutions.

Last year, the banks raised their reserves to between 35 and 40 per cent. Now the office has added the Congo, Mozambique, Niger and Sierra Leone to the list *of designated financially troubled* countries. Previously there were 34 countries on the list.

Almost all the banks had reached 35 per cent last October 31, through reducing loan exposure, debt sales and swaps of debt for equity.

Their loans to the 34 countries totalled about C$26bn (US$21bn), *against a capital base of C$20.3bn* for the six largest.

For 1987, the six had total losses of some C$1bn after doubling special reserves for Third World loans to C$9.6bn or 37 per cent of loans to the 34 countries.

Japanese acquire 20% of Inco's Indonesian unit

BY KENNETH GOODING, MINING CORRESPONDENT

INCO, the Canadian resources group, is to sell 20 per cent of PT Inco, its nickel-producing Indonesian subsidiary, to Sumitomo Metal Mining, Japan's second-largest non-ferrous metals group, for US$100m.

PT Inco will also repay debts of $380m to its parent before distributing any dividends. The Indonesian company intends to raise nickel production capacity by nearly one third, from 80m lbs to 105m lbs a year by 1990.

Inco said nearly all PT Inco's output goes to Japan and it was always the intention to have sub*stantial Japanese investment* in the Indonesian group.

But depressed nickel market conditions had made a deal impossible. Between 1978, when PT Inco started production, and 1986, it sustained net losses totalling $416.3m. However, produc*tion costs* (including shipment to Japan and toll-refining there) had been cut by 50 per cent since 1982 and last year the Indonesian company made a net profit of $500,000.

The recent sharp increase in the market price of nickel helped PT Inco earn $13.2m in this year's first quarter against a $4.8m loss in the same months of 1987.

PT Inco operates from the island of Sulawesi. Production last year was about 60m lbs of nickel in matte and this is expected to rise to 65m lbs this year.

Inco expects to realise a net gain of $45m from the sale. It has no plans to sell any more of PT Inco *except that it must offer* 2 per cent once a year to the Indonesian Government. Such offers have not yet been taken up.

Pre-tax profit jumps 20% at Dainippon Ink

By Stefan Wagstyl in Tokyo

DAINIPPON Ink and Chemicals, best-known outside Japan for its aggressive acquisition policy in the US, has reported a 20.1 per cent increase in annual pre-tax profits to Y14.5bn.

The group said the jump was *due to a strong* increase in sales, which rose 7.2 per cent to Y417.6bn. Turnover in building materials, as well as inks and synthetic resins, was buoyant.

However, a Y1.5bn improvement in non-operating income – interest and dividend payments – was offset by a sharp increase in loan costs to cover last year's purchase of *Reichold Chemicals* of the US.

For the current year, Dainippon *forecasts* a 10.3 per cent rise in pre-tax profits to Y16bn on a 6.5 per cent rise in sales to Y445bn.

Baer Holding to raise dividend by 9%

BY WILLIAM DULLFORCE IN GENEVA

BAER HOLDING, the Swiss banking group, proposes to increase its dividend by 9 per cent after reporting a 29 per cent increase in net earnings to SFr25.3m ($18m) for the year ended March 1988.

Proposed dividends are SFr180 per bearer share, compared with SFr165 in the previous year, SFr36 per registered share (SFr33) and SFr7.20 per participation certificate (SFr6.60).

The board proposes "in view of a future capital market transaction on favourable terms for shareholders" to increase the share capital from SFr47.3m to SFr52.3m by *issuing* 10,000 new bearer shares of SFr500 nominal at par.

INTERNATIONAL CAPITAL MARKETS

FINANCIAL FUTURES

Permits boost CBOT contract

THE CHICAGO Board of Trade's launch late last week of a new Treasury note futures contract marks one of the first financial futures contracts to start up in the US since October's crash.

The new contract will trade futures based on five-year Treasury notes in units of $100,000, adding to the CBOT's existing interest rate complex which includes its Treasury bond futures and 10-year Treasury note futures.

To give the new contract a boost, the exchange has introduced a permit programme, which allows users to trade the contract more cheaply. The CBOT has made 50 permits available at a fraction of the cost of exchange membership for a period of three years.

The CBOT's previous attempt to start up a new contract since the crash has been less than successful and its corporate bond futures – launched at the end of October – registered just 49 trades in the first four months of the year. But the CBOT's other interest rate contracts have been extremely successful and its T-bond futures is the busiest futures contract in the world.

Deborah Hargreaves

US MONEY AND CREDIT

Why trade deficit euphoria turned to dismay

WHEN THE most favorable economic development imaginable, such as last Wednesday's announcement of a record improvement in the US trade deficit, is treated by the market as an unmitigated disaster, it is time to start wondering whether the fashionable pessimism among investors has gone too far.

The US trade deficit has been universally acknowledged as the world's economic enemy number one. So who could possibly have predicted even a week ago that a 30 per cent reduction in the trade deficit would coincide with a 2¾ point fall in bond prices?

The answer, of course, is nobody. This in itself is not surprising, since markets are never happier than when they are making experts look like dunces. What is more significant is the ease with which analysts, who had previously looked to better monthly trade figures as the one remaining hope for a revival in the market's fortunes, managed to rationalise last week's amazingly churlish performance.

When analysts are willing to perform the most undignified intellectual contortions to justify a market movement that goes against all reason, the trend is often on the point of change.

Remember, for example, the pundits' effortless rationalisations of the over-valued dollar in 1984. Even when US inflation and trade figures came in worse than expected, the dollar would jump and the analysts would vie with each other in explaining the bizarre behaviour.

Faster inflation would mean higher US interest rates, and therefore a higher dollar, they would say. A bigger trade deficit meant a stronger economy and therefore a stronger currency.

Equity analysts were tying themselves in similar knots before last autumn's stockmarket debacle. When interest rates rose in the summer, the bull market charged on regardless. The problems, such as rising interest rates and unsustainable price-earnings ratios, may have been obvious. But as long as they were obvious, went the argument, they must already have been discounted in the market's onward rush.

The explanations of the bond market's response to last week's trade figures are worth considering in this light. The US trade deficit fell by 30 per cent, from $13.83bn in February to $9.73bn in March. What happened? Here is the description of the Wednesday's events in Donaldson Lufkin & Jenrette's bond market weekly:

"At first glance the trade report seemed a major positive for the fixed-income market. But within minutes of the release, euphoria turned to dismay as the $5.4bn increase in exports heightened concern over inflation."

The bond market, it seems, can no longer be satisfied with any old improvement in the trade deficit. The deficit has to be narrowed in the most painful way possible – through a reduction in imports occasioned by a recession in the US.

If this is true, then the outlook for the world economy is indeed grim. The possibility of America exporting its way out of balance of payments trouble has always seemed like the best hope for a soft landing of the dollar and the world economy after the turbulent events of the last few years. This hope has provided the basis for whatever policy co-ordination has been possible among the Group of Seven countries.

Not even Mr Nigel Lawson has ever suggested that a US recession – along with the inevitable trade contraction in the rest of the world, the probable collapse in Third World debt and possible disruption in the US domestic banking system – was somehow an end in itself.

Yet such a recession seems to be what the US bond market is demanding – or is it? A quite different interpretation is possible of last week's events. The trade figures may have been "too good" – but not in the way most analysts have concluded. The problem may simply be the market's disbelief in the 30 per cent export growth which was at the heart of the deficit improvement.

The latest figures may have been a freak – not only did they include $600m of one-off gold shipments to Taiwan, they also involved a much bigger than usual carrying over of exports that should have been in the February figures. If this was so, the next few trade deficit announcements may prove very disappointing and there would be little more good news on trade to look forward to before the autumn.

The key question, in other words, is not whether 30 per cent export growth is economically sustainable, but whether it is actually occurring. If future months' figures confirm that US exports really are growing, the boost this will provide to the dollar should easily outweigh any fears of inflation – and the bearish trend in the bond market could be on the point of turning.

Until a few more months of evidence on trade becomes available, however, the kind of export boom which seems to have terrified the bond market may be too much to hope for.

* * *

The following are the main economic indicators due for release this week, along with the median market forecasts as surveyed on Friday by Money Market Services of Redwood City, California:

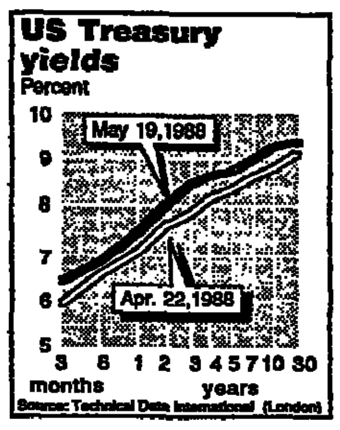
● Durable goods orders for April (Tuesday 8.30am) are forecast to have risen by 0.8 per cent, with estimates ranging from minus 0.9 per cent to plus 2.0 per cent.

● Gross national product for the first quarter (Thursday 8.30am) is likely to be revised upwards to a growth rate of 3 per cent. The preliminary range of estimates is from 2.5 to 4.0 per cent. The preliminary GNP figure published last month showed growth of 2.3 per cent. The GNP deflator is expected to be up 2.4 per cent, with a range of 2.2 to 2.7 per cent.

● Personal income and consumption for April (Friday 10am) should show growth of 0.6 per cent in income and 0.3 per cent in consumption. Estimates range from 0.3 to 1.5 per cent for income growth and minus 0.4 to plus 0.8 per cent for consumption.

Anatole Kaletsky

US Treasury yields



Source: Technical Data International (London)

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.13	7.16	6.98	7.78	6.27
Three-month Treasury bills	6.26	6.18	5.82	7.37	5.03
Six-month Treasury bills	6.59	6.42	6.23	7.65	5.41
Three-month prime CDs	7.32	7.25	7.02	8.28	6.67
30-day Commercial Paper	7.05	7.06	6.85	7.62	6.43
90-day Commercial Paper	7.20	7.19	6.93	8.05	6.47

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	96¾	-1¼	9.02	8.80	8.56
20-year Treasury	99⅝	-2¼	9.45	9.21	9.03
30-year Treasury	97¼	-2½	9.35	9.17	9.00
New 10-year "A" Financial	n/a	n/a	10.15	9.95	9.75
New "AA" Long utility	n/a	n/a	10.50	10.25	10.13
New "AA" Long industrial	n/a	n/a	10.38	10.20	10.00

Source: Salomon Bros (estimates).

Money supply: In the week ended May 9, M1 fell by $7.2bn to $749.2bn.

NRI TOKYO BOND INDEX

December 1983 = 100	19/5/88	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	143.68	4.45	144.00	142.39	137.91
Government Bonds	144.31	4.15	144.94	143.01	138.93
Municipal Bonds	145.20	4.85	145.37	143.99	138.32
Govt.-guaranteed Bonds	146.71	4.83	146.84	145.39	139.20
Bank Debentures	137.74	4.31	137.71	136.71	133.46
Corporate Bonds	143.58	5.33	143.47	141.86	134.41
Yen-denom. Foreign Bonds	144.45	6.39	144.27	142.24	138.52
Government 10-year†	5.04	–	4.98	4.90	5.22

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

The stock shortage argument begins to take hold again

IF THE BANK of England thinks there is a possibility of a shortage of gilt-edged stock this financial year it isn't telling anyone. Its announcement of an £800m tender for this Wednesday certainly surprised the market by its size.

There were already signs late last week that the stock shortage argument was beginning to take hold again. Before the tender was announced there was evidence that some switching from short gilts to longer maturities was squeezing market-makers.

The reason advanced was that, while investors are not prepared to buy the long end of the market with any great alacrity, they are not prepared to part with what stock they have. Hence the slight squeeze when demand at the long end appeared.

That said, the Bank plumbed for the right end of the market by going as short as it possibly could. From the point of view of the cost of funding, the Bank would have had a hard time justifying to itself issuing long stock at a yield of around 9.4 per cent. The judgment late on Friday of many in the market was that the minimum price which gives a yield to redemption of 8.98 per cent was fairly well priced.

As with the Bank's last tender, the 8½ per cent 1994s which was held in March for £800m and was partly paid, the latest one does not cover forthcoming redemptions. In March, the Bank had £1.3bn of index-linked stock maturing. *This time around* it issued no stock to cover a £1.4bn maturity on May 10 and it has £1.14bn of Treasury 9% 1988s maturing on June 14.

This week's tender should also give the Bank an opportunity to assess the market from a first hand point of view. It has been out of the market for a long time and its behaviour has begun to reflect this.

A week ago, it appeared to formalise its contacts with market makers. It now telephones them every morning and afternoon and wants to know who is in the market, what area is moving most, and the tone of trading.

The basics of the stock shortage argument are well known. A projected public sector debt repayment of £3.2bn together with redemptions of around £8.2bn gives notional gilt sales of £5bn. Allowing for some National Savings, many analysts estimate gilts sales of around £4.5bn.

The outlook *could* even be better than the above suggests. A number of forecasters believe the public sector debt repayment this year could be as much as £5bn to £6bn, which would yield gilts sales of only £1.5bn. Two months into the financial year, however, it would take a leap of faith to position one's book on such a forecast – after all, even on the official forecast, the outlook for the market appears propitious.

Last week's money supply figures showed that on an M4 basis funding amounted to £700m. This week's tender of £800m taken with the Bank's declared intent of having a summer auction, which could be up to £1bn, suggests that between August and the winter (when another auction is planned) there is little room left for further large issues.

So what? The market has been trying to convince itself that, an awful economic background notwithstanding, it can move ahead on the lack of stock. The uncomfortable fact is that private domestic and foreign issuers have begun to take advantage of the fact that official sales of UK debt are low to non-existent.

According to Mr David Walton of Goldman Sachs, there has been nearly £6bn of Eurosterling and sterling floating-rate bonds issues so far this year. If sterling remains firm, it is more than likely that the Government's reduced need to fund could be offset by new supply from domestic and overseas issuers.

The extent to which gilt prices can improve over a sustained period of time depends on whether they have characteristics not offered by other sterling bonds. Mr Walton thinks they do not.

A diversity in the range of private sterling issues is appearing; liquidity is improving (although it is not as good as the most widely traded gilts); and City institutions' reluctance to buy bearer bonds has diminished.

For sovereign and supra-national debt, such as Sweden and the World Bank, 0.2 per cent to 0.3 per cent in yield can be picked up. Yield spreads also offer profitable trading opportunities.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN BANK 8½ 91	150	98⅝	-1¼	9.18
AETNA LIFE & CAS 7¾ 16	200	94	-⅛	8.30
AMFC O/S FIN. 11¾ 94	100	101	0	11.47
A.I.D.C. 11 89	75	102⅛	+⅛	8.81
ALBERTA 7¾ 91	750	96	-⅛	8.73
ALCOA AUSTRALIA 12 92	80	101¾	-⅛	10.44
AUSTRALIA 11¼ 90	100	103⅝	-⅛	9.32
AUSTRALIA 11¾ 00	100	107½	-⅛	10.14
AUSTRIA 7¾ 97	200	88⅝	-⅛	9.80
AUSTRIA 8½ 90	250	99¾	-⅛	8.56
BANK OF TOKYO 8¾ 96	100	92⅛	-⅛	9.85
BANK OF TOKYO 11 90	125	103⅛	-⅛	9.05
BANK OF TOKYO 11¾ 90	100	106⅛	-⅛	9.05
BANK OF TOKYO 13¾ 89	100	105¾	-⅛	8.98
BARCLAYS JERSEY 10⅛ 98	250	102½	-⅛	8.63
BARCLAYS JERSEY 10⅛ 95	250	104	-⅛	9.82
BELGIUM 7½ 91	250	95⅛	-⅛	9.01
BELGIUM 7¾ 91	300	97⅛	-⅛	8.92
BELGIUM 9⅛ 92	400	99⅞	-⅛	9.14
BETAWEST PROP 7⅞ 93	150	93½	-⅛	9.42
B.F.C.E. 7¼ 93	100	91⅛	-⅛	9.41
B.F.C.E. 7¾ 97	150	88	-⅛	9.85
BK NOVA SCOTIA 7¾ 91 SW	150	96⅛	-⅛	9.36
B.N.P. 8¾ 93	125	96¾	-⅛	9.56
B.N.P. 13¼ 89	150	105⅛	-⅛	8.85
BP CAPITAL 9⅛ 93	150	100⅞	-⅛	9.35
BP CAPITAL 11⅛ 92	150	105⅛	-⅛	9.40
BR.COL.HYDRO 11¾ 93	200	109⅛	-⅛	9.36
CAMPBELL SOUP 10½ 95	100	104¾	-⅛	9.54
CANADA 10⅞ 88	500	100⅞	-⅛	8.48
CANADA 11½ 90	500	104⅛	-⅛	8.59
CANADIAN IMP BK 16⅛ 91	100	104⅛	0	14.97
CANADIAN NAT RAIL 14⅛ 91	100	104⅛	-⅛	13.01
CANADIAN PACIFIC 7½ 96	100	86⅛	-1	9.99
CANADIAN PACIFIC 10⅛ 93	100	103⅛	-⅛	9.82
CANADIAN PACIFIC SECS 15 89	75	106½	-⅛	9.05
C.C.C.E. 7¼ 91	113	94⅛	-⅛	8.97
CENTRUST SAVINGS 0 10	1.20N	97	-⅛	11.25
CEPME 7¼ 92	125	94⅛	-⅛	9.12
CHEVRON CORP 8¼ 96	300	90⅛	-⅛	10.00
CITICORP 11¾ 92	100	101½	-⅛	11.21
COLGATE-PALMOLIVE 9⅛ 96	100	98⅛	-⅛	9.85
COMM BK AUSTRALIA 10 93	100	102⅞	-⅛	9.33
COMM BK AUSTRALIA 12¾ 89	100	104⅛	-⅛	8.72
CONTINENTAL GRP 11⅛ 93	75	96⅞	-⅛	12.34
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US DOLLAR STRAIGHTS (cont.)	Issued	Bid price	Chg on week	Yield
QUEBEC PROV 15 90	150	[illegible]	[illegible]	[illegible]
QUEENSLAND GOVT 11¾ 89	100	[illegible]	[illegible]	[illegible]
RALSTON PURINA 11¾ 95	150	[illegible]	[illegible]	[illegible]
REYNOLDS R.J. 10⅛ 93	100	[illegible]	[illegible]	[illegible]
RICHARDSON-VICKS 11½ 93	125	[illegible]	[illegible]	[illegible]
ROCKWELL INT 9⅞ 90	200	[illegible]	[illegible]	[illegible]
S.A.S. 10⅛ 95	250	[illegible]	[illegible]	[illegible]
S.N.C.F. 7¼ 94	175	[illegible]	[illegible]	[illegible]
SASKATCHEWAN 7 91	125	[illegible]	[illegible]	[illegible]
SASKATCHEWAN 8½ 91	150	[illegible]	[illegible]	[illegible]
SASKATCHEWAN 11¾ 89	100	[illegible]	[illegible]	[illegible]
SASKATCHEWAN 15 92	150	[illegible]	[illegible]	[illegible]
SEARS O/S FIN. 0 98	500	[illegible]	[illegible]	[illegible]
SEARS O/S FIN. 11⅛ 93	150	[illegible]	[illegible]	[illegible]
SEARS ROEBUCK 8½ 90	250	[illegible]	[illegible]	[illegible]
SEC.PACIFIC O/S 10½ 88	100	[illegible]	[illegible]	[illegible]
SHELL CANADA 14⅛ 92	125	[illegible]	[illegible]	[illegible]
SHELL OIL 9½ 90	250	[illegible]	[illegible]	[illegible]
STATE BK STH AUST 9⅛ 93	100	[illegible]	[illegible]	[illegible]
STATE EL VICTORIA 10 92	100	[illegible]	[illegible]	[illegible]
STH AUST GOVT FIN 8¾ 93	100	[illegible]	[illegible]	[illegible]
SUMITOMO FIN 11¼ 92	150	[illegible]	[illegible]	[illegible]
SWEDEN 7 92	250	[illegible]	[illegible]	[illegible]
SWEDEN 8⅛ 94	150	[illegible]	[illegible]	[illegible]
SWEDEN 10⅛ 92	250	[illegible]	[illegible]	[illegible]
SWEDISH EXPORT 8⅞ 91	200	[illegible]	[illegible]	[illegible]
SWEDISH EXPORT 11½ 89	100	[illegible]	[illegible]	[illegible]
TAIYO KOBE 11⅞ 90	100	[illegible]	[illegible]	[illegible]
TAIYO KOBE 12 90	100	[illegible]	[illegible]	[illegible]
TENNECO CORP 11½ 89	150	[illegible]	[illegible]	[illegible]
TENNECO CORP 10⅛ 95	150	[illegible]	[illegible]	[illegible]
TEXAS INSTR. 11⅞ 91	150	[illegible]	[illegible]	[illegible]
TOKAI ASIA 11½ 95	100	[illegible]	[illegible]	[illegible]
TOKYO METROPOLIS 8¾ 96	200	[illegible]	[illegible]	[illegible]
TOYOTA MOTOR FIN 8 91	200	[illegible]	[illegible]	[illegible]
UNILEVER CAP CORP 9⅞ 92	150	[illegible]	[illegible]	[illegible]
VICTORIAN PUB AUTH 8⅛ 96	100	[illegible]	[illegible]	[illegible]
WARNER-LAMBERT 8⅛ 96	100	[illegible]	[illegible]	[illegible]
WELLS FARGO 13⅛ 91	100	[illegible]	[illegible]	[illegible]
WORLD BANK 7 92	300	[illegible]	[illegible]	[illegible]
WORLD BANK 11¼ 90	200	[illegible]	[illegible]	[illegible]
WORLD BANK 11⅛ 89	200	[illegible]	[illegible]	[illegible]
WORLD BANK 11½ 90	150	[illegible]	[illegible]	[illegible]
XEROX CREDIT CORP 10⅛ 89	150	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on MAY 20.

UK COMPANY NEWS

Stanley denounces Ward White's retail strategy and record

BY DAVID WALLER

A.G. Stanley, the Fads and Decor 8 DIY chain facing a £111m bid from Ward White, has delivered a robust defence of its own retail strategy and denounced its assailant's record in the high street.

In its defence document, sent to shareholders over the weekend, Stanley reiterates its contention that Ward White's offer does not do justice to its prospects under present management.

While not denying Ward White's claim that operating profits from the Fads chain have been static over the last three years, Stanley claims that it is wrong to isolate this area of the company's business – and that it has successfully identified a retail formula which will lead to a substantial improvement in profits in forthcoming years.

As an integrated manufacturer and retailer, the improvement in profitability at the wallcoverings mill should be taken into account in any assessment of the company's performance, Stanley claims.

It points out that earnings per share have grown at a compound annual rate of over 60 per cent since the company began a redirection of strategy in 1983, 'three times faster than Ward White's modest figure of 17 per cent.'

Stanley criticises Ward White's stated desire to put all the Stanley stores under one retail identity. By contrast, Stanley wants to develop two complementary chains: larger stores under the Fads name, and smaller stores under the Decor 8 label, with differing merchandise and marketing emphasis.

Stanley also highlights Ward White's abortive ventures into toy and shoe retailing. Last month, Ward White sold Zodiac, the toy-chain bought only in September 1985, for £7.25m, and the Focus shoe-store chain – bought in 1982 – for £24m.

Mr Philip Birch, Ward White chairman, insisted yesterday: "They still haven't answered my fundamental question. Why haven't they increased their profits in the high street over the last three years?"

Albion ahead at midterm

Albion, clothing manufacturer, returned profits of £262,285 pre-tax for the half year to end-March, an improvement of £68,069 over those of the corresponding period of the previous year. Turnover rose by £1.15m to £4.65m.

The interim dividend is being lifted to 1p (0.8p) from earnings of 4.44p (3.39p) per 20p share. The directors hope the first half progress can be maintained for the rest of the year.

FT Share Information Service

The following securities were added to the Share Information Service in Saturday's edition:

Acre Oil (Section: Oils).
Chesterfield Properties Conv. Pref. shares (Property).
Dagenham Motors (Motors).
Emess Pref. shares (Electricals).
Portugal Fund (Trusts, Finance, Land).
Smallbone Conv. Pref. shares (Stores).

Thai Euro Fund (Trusts, Finance, Land).
UK Paper (Paper).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Buffelsfontein, Griqualand West Diamond Mining, Holmes & Marchant, Northern Industrial, Radio City, Tunstall, Wheway, Williamson Tea.
Finals- Associated British Foods, Gates (Frank), Goldberg, Hartwell, J.S. Pathology.

FUTURE DATES

Interims-	
Anglo American Corp	June 1
Charles Church	May 31
Scottish Inv. Trust	May 26
TSB Channel Islands	May 31
Union Steel Corp of SA	May 27
Finals-	
Bromsgrove Industries	June 8
Brown Shipley Hldgs	May 20
De La Rue	May 31
Dunhill Hldgs	May 26
Hazlewood Foods	May 26
[illegible]	June 10
PCT Group	June 3
Textured Jersey	July 4

Nestlé track record under fire

Rowntree, the York-based chocolate company fighting a £2.1bn takeover bid from Nestlé, has hit out at the Swiss company's track record in brand management and criticised its record as an employer in this country, writes David Waller.

Rowntree has let it be known that its defence document will cite independent research showing that key Nestlé brands – Findus frozen food, Cross & Blackwell soup, Libby's canned fruit and Ashbourne mineral water – have all suffered heavy loss of market share since the beginning of the decade.

This will be used to support Rowntree's contention that its own track-record in brand management is superior and that prospects for the further exploitation of its brands in the run-up to 1992 would be much diminished by a Nestlé takeover.

Whilst not disputing the statistics, Nestlé retorted yesterday that the products cited were selective, and that the figures took no account of profitability.

For example, the research is expected to show that the Findus brand's share fell from 9.9 to 5 per cent between 1980 and 1986. Nestlé argues that the bare fact does not reflect the company's considered move towards lean-cuisine and other higher margin products at the expense of market share in low margin products.

Lord Young, Trade and Industry Secretary, is expected to announce his decision on whether the bid should be referred by Thursday night, when Parliament disbands for the Whitsun recess. If Nestlé's bid is referred, it lapses automatically and Rowntree will not have to put out its document.

English and Intnl

Net asset value at English and International Trust stood at 270p per share at April 5 1988 against 263.6p a year earlier and 352.9p on October 5 1987.

A final dividend of 3.45p (3.25p) is proposed for an improved total of 4.7p (4.25p).

After tax of £399,000 (£460,000), earnings per share were 4.72p (4.34p).

Peter Riddell and David Waller on a vital week at the Rowntree camp

D-Day looms for the Quality Street gang

THE ROWNTREE saga reaches its climax this week with the eagerly awaited announcement by the Department of Trade and Industry of whether the Nestlé bid will be referred to the Monopolies and Mergers Commission.

Neither the DTI nor the Office of Fair Trading, which makes the key recommendation to the Government after a detailed inquiry, have been left in any doubt over the past few weeks of the strength of feeling at Westminster.

The issue is simple: if the £2.1bn bid is not referred, Rowntree will be "taken out" within a matter of weeks. One way or another, with 45 per cent of its shares in the hands of Nestlé and Suchard, its days as a great, independent British company would be strictly numbered.

Rowntree workers with cardboard cut-out characters from a Quality Street box at a rally at London's Royal Horticultural Hall. In the foreground a thoughtful Lord Young, Trade and Industry Secretary, who will announce the DTI decision later this week.

Around 200 MPs from all parties have signed one or more of the half dozen Commons motions, all broadly taking the Rowntree side and expressing concern over the wider implications of a successful Nestlé takeover.

The affair has also been raised several times on the floor of the Commons – with a short late night adjournment debate planned for next Wednesday – and several deputations of MPs have lobbied ministers to press their case.

The political debate has been one-sided – with supporters of Nestlé being largely silent. Feelings have been so strong that Conservative whips are relieved that Labour did not use one of its debates to raise the issue since a sizeable number of Tory MPs might have abstained, thus embarassing the Government.

The discussion has broadened from focussing just on the future of one company into issues of regional policy (given Rowntree's roots in York and the north of England) and the position of British industry in Europe after the creation of the internal market after 1992. This has been matched by a series of, at times, conflicting and confusing comments from ministers and the OFT.

First, there have been complaints that Swiss companies like Nestlé are, in practice, bid-proof and thus can secure unfair advantages in the absence of reciprocity. Secondly, it is argued that the affair has shown the inadequacy of Britain's current competition rules, now mainly focussed on the domestic market, in the changed situation post-1992. Accordingly, Mr Michael Heseltine, the former Conservative minister, has argued that there is a need not only for the Rowntree bid to be referred but also for a broader recasting of merger guidelines.

By contrast, trade and industry ministers have resisted pressure to halt bids on reciprocity grounds, maintaining that Britain would suffer most from controls on investment. Similarly, it is argued that policy already takes account of competition in the relevant market, be this British or international.

The Rowntree case has become a stick with which to beat a multitude of departmental drums, and the tide of rhetoric from all sides has all but drowned out the Government's formal position on merger policy. The Blue Paper on merger policy, published in March this year, reiterates the so-called Tebbit doctrine of 1984 in stating that:

"Intervention by public authorities in lawful commercial transactions should be kept to a minimum since ... the free commercial decisions of private decision makers in competitive markets result in the most desirable outcomes for the economy as a whole."

The report acknowledges that the Fair Trading Act empowers the Secretary of State to make his decision on the basis of wider "public interest" concerns which have no bearing on competition. Employment, regional economic development and the reciprocity argument are cited as relevant considerations, as well as leveraged financing arrangements, a point which has no bearing on Nestlé's cash offer.

But the report continues: "The Government's view is that none of the above matters...is one where the public interest typically diverges from the interests of private sector decision-makers, although in exceptional cases it may do so. Normally, therefore, the decision should be left to the market."

Such logic was applied in the case of BTR's now notorious bid for Pilkington, which evoked much the same sentiments as the Nestlé bid: for York, read St Helens; for chocolate, the glass industry. Early last year, the Government refused to refer the conglomerate's offer and Pilks retained its independence as a result of a spirited defence on purely commercial grounds.

Earlier, in December 1985, Elders IXL's £1.8bn bid for Allied-Lyons was referred because of the proposed financing of the takeover. Although the reciprocity argument might then have applied – it would then have been well-nigh impossible for a UK company to have launched a similar bid for an Antipodean company – the OFT went out of its way to say that this had not influenced its recommendation.

In the present case, the reciprocity argument is closely tied to a wider contention that Rowntree is set to fall victim to a policy void which is allowing multinationals from outside the EC to seize upon Britain and unwilling British companies as the easiest point of entry into EC markets. The Government, critics argue, should take the opportunity to devise a credible policy ahead of 1992.

But a reference on these or any other grounds would have to be weighed up against the negative signals such a decision would send to those international companies considering investment in the UK ahead of 1992, especially in the wake of Ford's recent, embarrassing withdrawal from a major project in Dundee.

If the scope of the OFT's inquiry is limited to competition in the UK alone, Rowntree would seem to stand little chance of referral. In the oligopolistic UK chocolate confectionery market, where just seven chocolatiers account for nearly 90 per cent of chocolate sales, the consumer's choice is not likely to be much the worse for the combination of Nestlé's 3 per cent share and Rowntree's 24 per cent share.

The takeover would take Nestlé's share of the wider European market (including the UK) from 9 to 19 per cent, thus putting it ahead of Mars, the private company which has 17 per cent. This is beyond the OFT's ambit: Sir Gordon Borrie, director general of fair-trading, said last week that competition in the UK should be the prime consideration when considering a merger.

There has been much speculation about a defensive alliance between Cadbury and Rowntree. This raises a set of different questions – voiced when Tate & Lyle bid for British Sugar and GEC for Plessey – about the merits of strong domestic mergers for the sake of enhanced competitive power in international markets. The OFT was unsympathetic in both cases.

However clear-cut the arguments in the abstract, the end result of the debate has been to leave even MPs most closely involved uncertain of the outcome. Opinion has swung to and fro, at Westminster and down-river in the City. Initially, after comments by Mr Kenneth Clarke, the Industry Minister, the balance appeared to be against referral. Then after intensive lobbying, opponents of the takeover claimed signs of a ministerial reappraisal. Now no one knows.

One experienced former minister summed up the position by saying that the debate had produced enough pretexts for a referral on grounds of public interest, but that it was now a matter of politics. Do, in short, Sir Gordon Borrie, the director general of fair trading, and the DTI want to kick the issue into touch by asking the MMC to look at it?

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
* Argyll Group	June 25	Final 6.0	Leigh Ints.	June 24	Final 2.75
BET	June 16	Final 8.5	* Lonrho	June 4	Interim due
BPB Inds.	June 25	Final 8.0	MEPC	June 3	Interim 3.25
* BT	June 9	Final 5.1	MK Electric	June 24	Final 8.3
* Beecham	June 9	Final 7.9	Magnet Sthns.	June 17	Final 3.8
Berisford SW	June 18	Interim 4.0	M. Hallfax	June 28	Final 4.5
* Boots	May 28	Final 5.2	* Metal Box	June 21	Final 4.05
* Brit Airways	May 24	Final 4.116	* Meyer Int.	June 21	Final 4.65
* Brit Gas	June 16	Final 4.0	* Nororos	June 7	Final 9
Brit Land	June 10	Final due	* Nthn Foods	June 14	Final 4.75
Cable & Wire	June 24	Final 3.5	Pilkington	June 10	Final 18.5
Carlton Comm.	June 1	Final 3.5	* Plessey	May 26	Final 3.407
Chloride	June 18	Final 1.9	* Racal	June 28	Final 2.485
* Courtaulds	May 25	Final 7.1	* Redland	May 26	Final 8.675
De la Rue	June 2	Final 9.25	Reed Int.	June 3	Final 5.75
* Dwek	June 23	Final 0.5	Rothmans	June 25	Final 5.2
ERF	June 24	Final due	* Sketchley	June 2	Final 13
Gt. Portland	June 10	Final 4.5	Smith New Ct.	June 4	Final 6
Greenall	May 28	Interim 0.685	Stead & Simp.	June 28	Final 2.7
* Hanson	May 25	Interim 1.4	* Wolv Dudley	May 26	Interim 1.82
Jhsn Matthey	June 18	Final 3.5			

FINANCIAL TIMES STOCK INDICES

	May. 20	May. 19	May. 18	May. 17	May. 16	May. 13	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	90.12	89.97	90.03	90.16	90.26	90.18	91.43	86.97	127.4	49.18
Fixed Interest	98.38	98.13	98.05	98.10	98.11	98.10	98.38	94.14	105.4	50.53
Ordinary	1415.2	1408.1	1425.4	1435.5	1425.3	1428.6	1478.7	1349.0	1926.2	49.4
Gold Mines	203.1	200.9	198.3	197.8	196.3	195.4	312.5	195.4	734.7	43.5
FT-Act All Share	915.16	909.69	917.50	921.72	916.75	919.01	951.46	870.19	1238.57	61.92
FT-SE 100	1770.2	1760.6	1777.6	1789.2	1776.6	1781.8	1855.5	1694.5	2443.4	986.9

UK COMPANY NEWS

James Buxton looks at the sweeping changes made at Ivory & Sime

New team to seek former glories

'WE'VE DONE a lot in the last three years to turn this company round," says Mr Alex Hammond-Chambers, chairman of Ivory & Sime, the Edinburgh-based fund manager. "We hope that with the new team playing we'll be able to reproduce some of the glories of past years. But until we score some goals we've proved nothing."

Until a few years ago, Ivory & Sime was regarded as one of the more glamorous medium-sized fund management houses in Britain. It had a reputation for pulling off striking deals and making very successful investments in North Sea oil, and in high technology companies in the US.

The fact that it was run not from London but from Charlotte Square in Edinburgh, seemed somehow to add to its fascination in the eyes of those outside.

But for most of the 1980s a good deal of the fascination has been with the turmoil evidently

raging behind the Georgian facade as a series of senior executives left the company, and, over the past few years the performance of several of its investment trusts faltered badly. What one observer calls the nadir of Ivory & Sime's fortunes came in February this year when an ingenious scheme for restructuring some of its investment trusts was rejected by shareholders.

Last week Mr Hammond-Chambers announced moves which he believes "complete the changes" needed to revive the company's prospects. He snapped up the services of Mr Graeme MacLennan, who had unexpectedly resigned a few days before as joint managing director of the rival company Edinburgh Fund Managers, and is installing him as investment director. He is also boosting Ivory & Sime's own in ternal structure by making David Ross, up to now company secretary, its first managing director.

Mr Hammond-Chambers, who is 45, took over as chairman from Mr Jimmy Gammell in 1985 — Gammell was the man who built up the business in the 1960s and 1970s, and gave it a high profile. Mr Gammell deliberately fostered a hothouse atmosphere, rich in creative tension within the company as brilliant young men, usually recruited direct from university, fought out their rivalries. The formula often produced good results for the investment trusts and pension funds whose management was Ivory & Sime's business.

But he did not establish a clear succession structure and created a company in which, when it went public in 1983, the average age of the executives was only 29 with barely anyone aged over 40. "There were a lot of bright cooks in the kitchen, and it was fairly likely that some would scratch each others eyes out and decide they were going to move on to work in a different restaurant," says Mr Hammond-Chambers.

Several growing financial services companies in Edinburgh have been formed or strengthened over the years by people who spun out from Ivory & Sime.

Mr Hammond-Chambers says that one of his two aims as chairman has been to 'change the corporate culture' of Ivory and Sime away from a collection of individuals towards a team approach. "I don't like the creative tension approach. In any case, I'm quite incapable of handling it," he says.

His other aim was to diversify the business.

The two aims, he says, involved changes in attitude and meant a few more people going. For example, Mr Giles Weaver, responsible for pension fund management, left in 1986, Mr Garth Ramsay, deputy chairman, departed last year and early this year Mr Robert Randall, the oil and gas specialist, left. By the standards of Edinburgh, though not of London, that amounts to a high turnover rate.

"I don't regret anyone that we've lost," says Mr Hammond-Chambers. "It's not that they weren't good and talented people, but that they weren't the right people."

The departures took place against a background of a poor performance by several of the investment trusts. Edinburgh American, which had soared on the boom in high technology stock in the US, declined when the market for these stocks peaked after 1983.

The oil and gas funds, North Sea Assets and Viking, turned sour when the North Sea ceased to thrive and Ivory & Sime was accused of moving too slowly to remedy the problems.

Ivory & Sime, which has assets under management of over £2bn, has since restructured its oil and gas holdings; created a new subsidiary to specialise in development capital under Mr Jeremy Hayward, and set up two fund management joint ventures with Japanese companies — one based in Hong Kong with Sumitomo Life Insurance, and the other based in Edinburgh with Sumitomo Trust and Banking Company. Both give it important footholds in the Japanese savings market.

The company is also trying to build up an international client base among wealthy individuals in the US, the Benelux countries and Japan.

On October 19 last year, Ivory & Sime secured the services of the team led by Mr Richard Carswell which had successfully built up County Unit Trust Managers. Mr Hammond-Chambers describes this move as a 'no-brainer' — an obvious golden opportunity — though it adds about £750,000 to the company's overheads. It heralded Ivory & Sime's entry, which some say was long overdue, into unit trusts.

But these positive developments were overshadowed by the near-fiasco in February of the restructuring of three of Ivory & Sime's trusts, Edinburgh American, Atlantic Assets and Japan Assets, partly with a view to warding off predators wishing to exploit the discount to net asset value at which the trusts stood.

The shareholders in each trust were offered a bewildering variety of alternatives, including units in a new Luxembourg-based umbrella company called Atlas Fund.

But only the restructuring of Edinburgh American went through. The other schemes failed on the opposition of either shareholders or loan stock holders. "We got a bloody nose," says Mr Hammond-Chambers. "We weren't very smart in our relations with our shareholders. But I'm unrepentant that the proposals were a well thought-out, highly innovative and logical way to go."

Since then, the Japan Assets project has been restructured and is expected to be approved early next month, while work on revising the Atlantic Assets scheme should soon be complete. "It indicates that Ivory & Sime have started listening to their friends again," says an outside observer.

In any case, Ivory & Sime now seems to have recovered some of its poise. In a rights issue in March, its Japanese partner Sumitomo Life Insurance came in as a shareholder with 15 per cent of the company, making it the biggest shareholder after Ensign Trust, the merchant navy's pension fund, which has 25 per cent.

The impending arrival of 45-year-old Mr Graeme MacLennan as supremo for all the company's investment operations, is seen by analysts as adding considerable credibility to the company. His appointment is said to have been well received in the ranks. But some observers fear it could lead to more blood-letting.

Mr Hammond-Chambers says that the performance of the company's investment trusts since last October's crash has been 'somewhere around the medium.' But he argues that the business, which made net profits of £3.2m in the year to April 30 1987 and will be reporting for 1988 in the next few weeks, is now more broadly-based than it was three years ago. "It's over the next three to five years that we'll see whether the team can score," he says cautiously. "I'd doubt that we are half or even a quarter of the way there yet."

Barton Transport buses run into loss

THE recent problems continued at Barton Transport, east midlands-based bus operator, in the first half of the present year. It fell into pre-tax losses of £184,000 for the 24 weeks to March 12 against profits last time of £119,000.

Mr T.H. Barton, chairman, said that the bus industry was still in a state of flux following de-regulation, which accounted for the disappointing results. He added that in an ever-changing situation steps were being taken to improve the position.

Turnover fell from £3.68m to £3.46m, and after a tax credit of £17,000 (£35,000 charge) losses per 160p deferred share came out at 23.4p compared with earnings last time of 16.7p.

The trading loss was £158,000 (£101,000 profit).

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§60	F.P.	-	73	63	*ASB Barnett Kunnings 2p	68		-	-	-	-
330	120	-	80	64½	British Petroleum	65	+½	N12.5	1.5	6.1	13.7
†	F.P.	-	155	147	Carbo 5p	147		4.6	2.7	4.2	10.0
§80	F.P.	-	100	80	‡Central Motor Auctions	96		u2.5	2.0	3.5	14.1
§150	F.P.	-	174	150	‡Clinton Cards 10p	167	-2	u2.6	2.6	2.1	21.3
-	F.P.	-	18	4	Cullens Hldgs. Wrrnts	16		-	-	-	-
§85	F.P.	3/6	108	83	‡Dudley Jenkins 5p	101		R2.7	2.4	3.6	15.6
§210	F.P.	-	240	213	‡Freeman Group 10p	226		b6.75	2.8	4.0	11.9
§125	F.P.	18/5	148	125	‡Handley-Walker 5p	148		u3.3	2.4	3.0	16.3
100	F.P.	-	99	98	Gowett Am. Endeavour Fd.	98		-	-	-	-
140	F.P.	10/6	149	140	‡Holders Technology 10p	148		u6.0	2.0	5.4	12.2
§64	F.P.	20/4	80	64	‡Hughes (H T) 10p	74	+1	b2.25	2.1	4.1	13.7
§122	F.P.	20/5	141	135	Johnston Press	138		L3.5	2.6	3.4	15.0
§90	F.P.	-	116	101	‡Kitty Little Group 5p	110	+2	1.8	4.0	2.2	15.2
65	F.P.	21/6	7¼	5½	‡Lincoln House 5p	5½	-½	-	-	-	-
-	F.P.	-	4½	1½	‡Do. Warrants	3½		-	-	-	-
-	F.P.	-	57	40	Marevale "S"	46	+1	-	-	-	-
93	F.P.	20/5	86	73	Merchant Manufactory Est.	73		u3.0	1.6	5.5	6.1
§110	F.P.	20/5	126	118	‡Microlec Group 5p	120		R2.9	3.0	3.2	13.7
§120	F.P.	-	131	121	‡Moorfield Estates 10p	123		R3.15	2.6	3.4	13.2
§90	F.P.	-	101	86	‡Morris Ashby 10p	88	-2	R3.37	2.3	5.1	8.8
-	F.P.	-	13	5	Oceonics Group Wrrnts	11½		-	-	-	-
§175	F.P.	27/5	184	175	P&P 10p	179		L2.62	5.0	2.0	13.7
†	F.P.	-	63	58	Page (Michael) Group 2p	55		W1.3	3.2	3.2	13.4
§78	F.P.	3/6	96	88	‡Porvair 2p	93	+1	L2.34	3.8	3.4	7.6
14	F.P.	25/4	18½	15	‡Resort Hotels 10p	18½	+1	R0.42	2.5	3.0	15.1
§121	F.P.	-	128	119	‡Roskel 10p	119	-1	u2.7	3.1	3.0	12.4
-	F.P.	-	20	16	SD-Scicon Wrrnts.	20	+2	-	-	-	-
§230	F.P.	3/6	240	230	Serco Group 2p	235		R7.0	3.1	4.0	10.8
§95	F.P.	-	95	93	‡Skani Group 10p	95		R3.4	2.7	4.8	9.7
518	F.P.	-	970	945	Sotheby's Hldgs. Class A	950	-5	SU025c	2.7	1.4	25.9
†	F.P.	-	£23¾	£23¼	Texas Instruments $1	£23¼		Q$0.72	-	4.3	-
§85	F.P.	-	86	83	‡Total Systems 5p	83		R2.5	2.1	4.0	15.5
§235	F.P.	-	260	250	Victaulic	250	-1	W7.5	2.8	4.0	11.5

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price £	+ or -
‡100	F.P.	-	107p	104p	BBA Group 6.75pc Cm. Rd. Cv. Pf.	104p	
§94¼	23.56	30/11	95¾	94¾	Capital & Counties 9¾pc 1st Mort. Db.	94¾	
100	35p	4/8	39¼p	38p	Co-Op Bank 8.48pc Cum. Red. Prf. 201	38¼p	+¼
§100	40	1/7	41½p	40p	LIT Hldgs 9.47pc Cm. Rd. Pf. 1998-08	40p	
-	F.P.	-	100⅛	99⅞	N'wide Anglia 9¾pc Bd 17.4.89	100⅛	
-	F.P.	-	100⅛	99⅞	Do. 9½pc Bd. 8.5.89	100⅛	
§100	F.P.	-	108p	106p	‡Savage Group 6.5pc Cm. Rd. Cv. Pf.	107p	-1
100	NIL	24/5	20pm	13pm	Sound Diffusion 7¼pc Cv Cm Rd Prf	15pm	-1
100	F.P.	11/5	135p	123p	SD-Scicon 6½pc Cm Cv Rd Pf	128p	+2
100	NIL	24/5	750ppm	250ppm	Tate & Lyle Non-Int. Cv Un Ln 1989	350ppm	-100

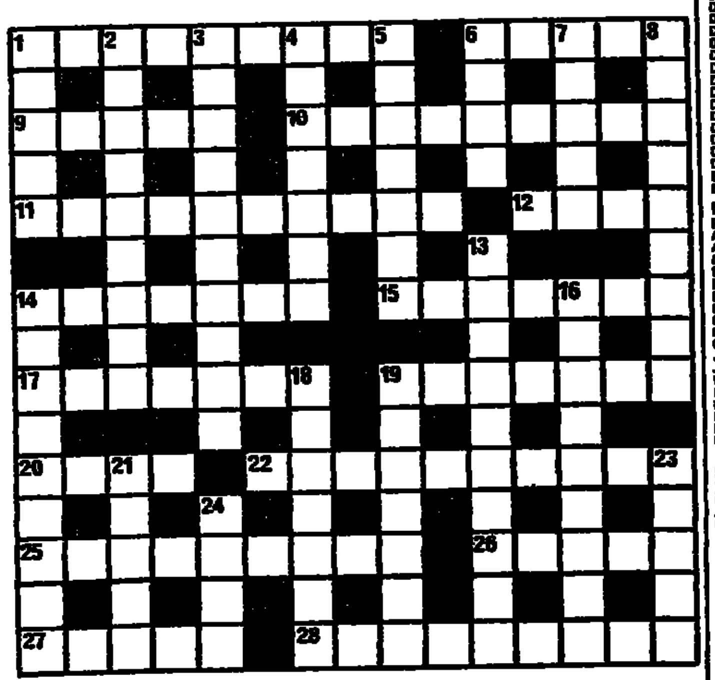
"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
247	Nil	17/6	40pm	32pm	Alphameric 5p	40pm	+3
41	Nil	29/6	3pm	1¼pm	‡Eadie Hldgs.	2pm	
100	Nil	17/6	4pm	2½pm	Geevor Tin Mines	3pm	
204	Nil	3/6	12pm	1pm	Kelt Energy Units	1pm	
30	Nil	21/6	13pm	1½pm	‡Lincoln House Units	8pm	
75	Nil	26/5	4pm	3pm	‡Pineapple Group 10p	3pm	
90	Nil	31/5	21pm	15pm	‡Scanro Hldgs 20p	16pm	-2
90	Nil	22/6	18pm	10pm	Scantronic 10p	11pm	+1
312	Nil	-	40pm	23pm	‡Trencherwood 10p	40pm	
60	Nil	-	1½pm	¼pm	‡Trillion 10p	1pm	
215	Nil	4/6	14pm	12pm	Westbury 10p	12½pm	+½

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♥ Issued by tender ‡ Offered to holders of ordinary shares as a "rights". † Introduction §Placing price. ‡† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‖ Allotment price. ‡ Unlisted securities market. ♠ Official London listing. □ Including warrants entitlement. ° Third Market.

FT CROSSWORD No.6,637

SET BY TANTALUS



ACROSS

1 Meredith's self-centred person (3,6)
6 Many gone frantic getting dismissal (5)
9 I enter Rome complex to obtain watered silk (5)
10 Look east for example to form opinion (10)
11 Not long before the staff of life makes something sweet (10)
12 Ambassador goes to jolly island (4)
14 Carlyle considered economics a dismal one (6)
15 Any act you heard reproduced in Mexico (7)
17 Thieve half of them – that shows furtiveness (7)
19 Calm worker supplies engine fluid (7)
20 It holds water for sheep by river (4)
22 Auditor's assistant? (7-3)
25 She wouldn't leave you standing! (9)
26 Elias translation in part of church (5)
27 Class arrangement (5)
28 This 14 across is the study of government (9)

DOWN

1 French friend in outskirts of Tours finds cloth sieve (5)
2 Characters in Poe's time I typify (9)
3 Highly gifted pawnbroker in the family (5-5)
4 Fashionable poetry printed upside down? (7)
5 Party he throws is the treatment! (7)
6 Manage firm on the borders of Palestine (4)
7 Poet heard making a din (5)
8 Somehow I'm tense at this bar (9)
13 Financial man gives report to busybody (10)
14 Misbehaved, so sent out to acquire smooth manner (9)
16 Marine has sail repaired in time and starts cruise (9)
18 The ale brewed with pressure is left in glass (4-3)
19 Basket for fabulous bird raised to live with the Italian (7)
21 Initially every priest had one denominational surplice (5)
23 A number go to where there may be water to live (5)
24 Some sombre rescuers discover a rabbit (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 4.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

Scottish Life Investments(z)
19 St Andrew St, Edinburgh 031-225 2211

Nelson (UK)	204.6	218.9	2.8	41334
Columbus (US)	121.1	129.6	1.52	41335
Marco Polo (Pac)	219.1	234.4	0.24	41336
Da Vinci (Eur)	217.7	232.9	1.96	41337
[illegible]	52.3	56.0	2.56	41338

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	204.1	217.2	2.57	41339
UK Smllr Cos Eqty	212.3	225.9	2.06	41340
UK Spec Sits	60.3	60.3	2.87	41341
Income Plus	52.7	56.1	5.49	41342
European	156.4	166.4	1.33	41343
Far Eastern	84.2	87.7	1.90	41344
Japanese	56.5	60.2		41345
North American	104.8	111.5	1.38	41346
Intl Growth	106.0	112.8	1.06	41347
Worldwide Venture	52.2	55.6	3.52	41348

Scottish Provident Inv. Mgt. Ltd
6 St Andrew Sq, Edinburgh EH2 2YA 031-558 2341/2/3

Equity Growth Acc	17.28	18.49	2.94	41349
Equity Growth Inc	17.11	18.31	2.94	41350
Intl Growth Acc	16.60	17.77	1.28	41351
Intl Growth Inc	16.50	17.66	1.28	41352
Global Income Acc	18.49	19.79	5.37	41353
Global Income Inc	18.49	19.79	5.37	41354
Market Leaders Acc	16.27	17.41	3.67	41355
Market Leaders Inc	16.05	17.18	3.67	41356

Scottish Unit Managers
48 Melville Street, Edinburgh EH3 7HF 031-226 4372

Pacific (z)	82.6	88.8	0.00	41357
Income	51.4	54.6xd	4.47	41358
European (z)	33.0	35.1	1.41	41359
Nth American (z)	26.1	27.8	0.83	41360
Intl Growth	430.7	458.1xd	1.26	41361
Gwth & Recovery	47.8	50.7	2.40	41362

Scottish Widows' Fund Management
PO Box 902, Edinburgh EH16 5BU 031-668 3724

Peg Equity Acc	315.0	335.2	3.69	41363
Peg Equity Inc	261.2	278.0	3.69	41364
Peg High Inc Acc	158.9	169.1	4.73	41365
Peg High Inc	146.8	156.2	4.73	41366
Peg Europe Acc	116.5	124.0	1.77	41367
Peg Europe Inc	115.3	122.7	1.77	41368
Peg Nth Amer Acc	79.8	84.9	1.87	41369
Peg Nth Amer Inc	77.6	82.7	1.87	41370
Peg Pacific Acc	234.9	250.0		41371
Peg Global Acc	117.8	125.4	2.59	41372
Peg Global Inc	115.4	122.8	2.59	41373

Sentinel Funds Mngmnt Ltd
30 City Road, London EC1Y 2AY 01-638 6011
Dealing: 01-628 6626

American Majors	52.5	55.9	1.30	41374
Amer Tech & Gen	90.0	96.0	0.00	41375

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Vanguard Trust Managers Ltd — Contd.

American & Gen	52.2	55.5	1.86	41562
(Accum Units)	53.6	57.0	1.86	41563
Growth	212.3	225.9	2.52	41564
(Accum Units)	320.2	340.6	2.52	41565
High Yield	269.4	286.6	4.56	41566
(Accum Units)	289.0	307.5	4.56	41567
Special Sits	53.0	56.4	2.30	41568
(Accum Units)	54.7	58.2	2.30	41569
Trustee	158.1	168.2	4.21	41570
(Accum Units)	256.8	273.2	4.21	41571
European Inc	35.0	37.2	0.66	41572
(Accum Units)	35.1	37.3	0.66	41573

Wardley Unit Trust Managers Ltd (a)
99, Bishopsgate, London, EC2P 2LA. 01-374 0061

American	48.5	41.8	1.6	41574
Intl Growth	62.5	66.8	0.4	41575
Income	112.3	120.2xd	5.5	41576
Japan Growth	183.7	196.5	0.1	41577
Pacific Perf	115.8	123.9	0.4	41578
Small Co's	139.7	149.5	1.5	41579
Technology	51.6	55.7xd	0.1	41580
Australia	49.7	53.2	2.2	41581
UK Trust	153.7	164.4xd	2.8	41582
European Growth	39.9	42.6	0.1	41583
Hong Kong	25.3	27.1	1.3	41584
Intl Income	19.4	20.8	8.5	41585
S'pore & Mlysa Gth	18.3	19.5xd	1.0	41586
British Winners	24.6	26.4	4.0	41587

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	18.6	19.7	0.00	41588
Pacific Basin	22.5	23.9	0.1	41589
Can Balncd Gwth	42.2	44.8	0.1	41590
Global Strat	98.2	102.3	8.6	41591
Penny Share	26.2	27.8	0.5	41592

Wellington Fund Mngrs Ltd
2, London Bridge, SE1 01-407 4404

Wellington Income	105.7	113.0xd	4.74	41593
Wellington Growth	164.0	174.5xd	1.53	41594

Wessex Asset Management
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432

Wessex UK Gwth	91.8	95.8	—	41595

Whittingdale Unit Trust Management Ltd
2 Honey Lane, London EC2V 8BT 01-606 3132

Challenger	53.7	54.4	—	41596
Short Dtd Gilt	77.3	78.3xd	—	41597
U.S. Govmnt Bond	50.529	0.530	—	41598

Wilfong Financial Services Limited
PO Box 515 Austin Friars, London EC2P 2HS 01-588 7511

Aust Friars W'wide	157.1	167.2	3.45	40677

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

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INSURANCES

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Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assn Ltd

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Heritage Life Assurance Ltd - Contd.

Royal Life Insurance Ltd

Royal Liver Assce (Life & Pension)

Save & Prosper Group

Scottish Amicable Investments

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Skandia Life Assurance Co Ltd - Contd.

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life Unit Assurance Ltd

Sun Life of Canada (UK) Ltd

Swiss Life Pensions Ltd

Next sub day May 25

TSB Life Ltd

Target Life Assurance Co. Ltd.

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

UK Provident

Wesleyan & General Assurance Soc

Windsor Life Assur Co Ltd

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plan.) Ltd

The Analysis Group PLC

Asbrite Insurance Brokers Ltd

Atticus Financial Services Ltd

Blackstone Franks Plc

Bryan Wells & Partners Ltd

Cameron Law & Company Ltd

James Campbell & Son Financial Services

Chase de Vere Investments Ltd

Clifton Financial Mgmt Ltd

Drummond Moore Plc

First Financial Services PLC

Fitzgerald Ltd

Hambro Financial Services (CY) Ltd

Investment Portfolio Services Ltd

Johnson Fry Plc

Knight Williams & Company Ltd

KW Crown Man	95 0	99 9	—	44507
KW Schroder Man	95 8	100 8	—	44508
KW Norwich Union Man	83 8	88.3	—	44509
KW M & G Cap	69 8	73.4	—	44510
KW Henderson Mgd 3	89 3	94 1	—	44511
KW Allianz Mgd Intl	97 4	102.4	—	44512
KW Schroder Man. Cap.	100 9	106.2	—	44513

Lamont & Partners Plc

M & E Financial Management Plc

Marsh Financial Management Ltd

Noble Lowndes & Partners Ltd

The Normister Group

O'Halloran & Co/Countrywide

Old Oak Investment Services

Optimum Fund Mgmt Ltd

PBR Fund Management Ltd

The Porchester Group

Roxborough Financial Management Plc

Sharp (Albert E.) & Co

Siltala Fund Managers Limited

Tattersall Investment Mngt. Ltd

Towry Law & Co

University Medical General Ltd.

J. Ward Financial Services Ltd

Ward Consultancy

Yorkshire & Lancashire Investment Mgt.

OFFSHORE AND OVERSEAS

Abbey Global Investment Fund

Adams & Neville Fund Mngt (Guernsey) Ltd

AEtna Federated Intl Mngrs (Lux) SA

Aitken Intl Assurance (Overseas) Ltd

Allied Dunbar International Fund Mngrs

Allied Irish Fund Managers

Anglo-Swiss Asset Management Ltd

Alexander House see CL-Alexanders House

Alliance Capital Management Intl. Inc.

Alliance International Assurance Ltd

BAII Multicurrency (SICAV)

Barclays International Group

Baring Fund Managers (Guernsey) Ltd

Baring International Fund Mngrs (Ireland) Ltd

Brazil Capital Services Ltd

Bridge Management Ltd

CAL Investments (IoM) Ltd

CL-Alexanders House (Bermuda) Ltd

Citibank - Contd.

Credit Suisse

Equity & Law International Fund Mgrs Ltd

Far East Growth Fund

Fidelity International

Fleming Group

Foreign & Colonial Management Ltd

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due		City-line
1,302	Transport 3pc '78-88	99⅝	6.50	25.11	1Jan	1Jul	1237
2,050	Treas. 9½pc '88	100¾	7.74	21.3	25Apr	25Oct	1346
2,250	Treas 11½pc 1989	102⅝	8.11	18.1	22Aug	22Feb	1291
855	Treas 9½pc Cnv 1989	101	8.20	11.9	18Oct	18Apr	1348
500	Treas 3pc 1989	97¼	6.11	26.03	15Nov	15May	1327
1,400	Treas 10½pc 1989	102	8.38	09.04	14Dec	14Jun	1287
2,400	Exch. 10pc 1989	101	8.47	29.12	1Feb	1Aug	1250
2,000	Exch 11pc 1989	103	8.48	24.2	29Mar	29Sep	1256
601	Treas 5pc 1986-89	97	7.27	9.3	15Apr	15Oct	1329
535	Exch 10¼pc Cv '89	103	7.94	8.4	15May	15Nov	1255
1,000	Treas 13pc 1990‡‡	106⅝	8.57	9.12	15Jul	15Jan	1300
1,400	Exch 11pc 1990‡‡	103	8.60	6.1	12Aug	12Feb	1257
1,250	Exch. 12½pc 1990	106	8.66	17.8	22Sep	22Mar	1262
550	Treas. 3pc 1990	93¼	6.73	5.4	8Nov	8May	1325
600	Treas 8¼pc 1987-90‡‡	99⅝	8.42	09.04	15Dec	15Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	100¼	7.83	–	16Jul	16Jan	4680
1,867	Treas. 10pc Cv 1990	102	8.73	21.3	25Apr	25Oct	1285
500	Exch 2½pc 1990	90	6.65	16.10	22May	22Nov	1270
2,200	Treas 11¾pc 1991	106	8.83	4.12	10Jul	10Jan	1292
400	Funding 5¾pc '87-91‡‡	94	7.95	1.9	5Oct	5Apr	1275
400	Treas. 3pc 1991	89	6.95	6.4	13Nov	13May	1326
646	Treas 10pc Cv '91 ‡‡	103	8.54	7.12	12Jan	12Jul	1286
1,550	Exch. 11pc 1991	106	8.80	21.3	25Apr	25Oct	1258
1,350	Treas. 8pc 1991	97¼	8.78	04.04	10Jun	10Dec	1335
900	Treas 12¾pc 1992‡‡	111	8.90	19.1	22Jul	22Jan	1297
1,600	Treas 10pc 1992	103	8.87	15.1	21Aug	21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	97	8.82	11.6	13Oct	13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	105	8.92	1.9	7Nov	7May	1289
500	Treas. 3pc 1992	85	7.11	4.11	11Dec	11Jun	1328

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City line
1,414.9	TRW Inc. 62½c	27¾	$1.60	3.7	10.5	Ma Ju Se De	4318
3,259.0	Tenneco $5	22⅝	$3.04	7.5	11.8	Mr Ja Sp De	4194
6,435.6	Texaco $6.25	26½	$3.00	6.2	28.4	Mr Je Se De	4200
4,617.1	Time Inc. $1	40⅞	$2.00	1.1	24.01	Mr Ju Se De	4234
1,261.2	Transamerica $1	16⅜	$1.84	6.1	31.3	Ja Ap Ju Oc	4289
461.2	Transworld Corp $5	89½	20c	1.2	11.11	Fe My Au No	—
529.7	TRINOVA Corp.	15⅛	56c	2.0	9.11	Mr Je Se De	4309
4,466.8	USX $1	16⅜	$1.20	3.9	30.10	Mr Je Se De	4380
2,557.7	Utd. Technologies	19¼	$1.60	4.5	19.5	Mr Ja Sp De	4381
5,535.3	US West	27¼	$3.52	7.0	13.4	Fb My Ag No	—
4,003.5	Waste Management $1	17⅛	36c	1.1	21.3	Ap Jy Oc Jan	4439
943.3	Whirlpool $1	13⅞	$2.10	4.4	25.01	Mr Ja Se De	—
1,797.9	Woolworth $3½	27⅛	$1.64	3.3	19.11	Mr Je Se De	4540

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INSURANCES

LEISURE

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

1.55	Ovoca Gold IR 2p.	49	–	–	–	–	1470
3.92	Pennant Grp 2p	22	d0.2	1.2	–	–	–
6.25	Propeller 1p	58	–	–	–	–	3729
2.76	Publishing Hldgs.5p	17	–	–	–	–	3735
4.72	Seacon Hldgs.	68	–	–	–	–	3968
5.25	Staks Hldgs. 5p	19	–	–	–	–	4625
4.63	Swanyard Studios 1p	31½	–	–	–	–	4666
21.2	Takare	243	b1.0	0.5	–	–	4647
9.63	Theme Holdings	58	1.1	2.9	25.4	June Dec	4206
2.91	Tomorrows Leisure 20p	26	–	–	–	–	4248
10.0	Tullow Oil 10p	16	–	–	–	–	4886
4.84	UPL Group 10p	128	L2.41	2.7	–	–	4362
5.75	Unit Group	142	R4.6	4.3	9.31	Jan July	4357
6.36	Video Tape Record 5p	92xd	L2.3	3.3	9.5	–	4591

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ‡ Cover does not allow for shares which may also rank for dividend at a future date.
- ∎ No par value

B.Fr. Belgian Francs. Fr. French Francs ∎∎ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	68xd	.....
Craig & Rose £1	488	.....
Finlay Pkg. 5p	78xd	+1
Holt (Jos) 25p	£11⅝xd	.....
Arnotts	315	.....
CPI Hldgs.	98	.....
Carrol Inds.	150	.....
Hall (R. & H.)	135	+3
Helton Hldgs.	39	.....
Irish Ropes	138	-2
Unidare	350	.....

IRISH

Nat. 9¾% 84/89	£101	.....
9pc Cap Ln. 1996	£98¼	.....
Fin. 13% 97/02	£118⅝	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	35
Amstrad	16
BAT	56
BOC Grp	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	38
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	38
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	30
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property

Brit Land	30
Land Securities	52
MEPC	52
Peachey	50

Oils

Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	40
Premier	7½
Shell	95
Ultramar	26

Mines

Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

Rentals

Contracts & Tenders

Eletrobrás Centrais Eletricas Brasileiras SA Ministério das Minas e Energia

Eletronorte
Centrais Eletricas do Norte do Brasil SA

The CENTRAIS ELÉTRICAS DO NORTE DO BRASIL S/A – ELETRONORTE, an eletric power company, subsidiary of CENTRAIS ELÉTRICAS DO BRASIL S/A – ELETROBRÁS, makes public its intention to receive manifestation of companies interested in refurbishing Gas Turbine Modules with the *following characteristics:*

MANUFACTURER	MODEL	SERIAL NUMBER		MANUFACTURING YEAR	NOMINAL POWER (MW)
		GAS GENERATOR	FREE TURBINE		
UNITED TECHNOLOGIES INTERNATIONAL, INC – UTI	FT4C-3FL	686719 686718	600605 600669	1978	26
		686721 686780	600604 600605	1981	
GENERAL ELETRIC CORPORATION – GE	HEAVY DUTY MS 5000	266 055 266 056 266 058 266 059 266 060 266 207		1973	20
	MS 5001	147 713 147 724 147 725		1982	10
TURBODYNE	11D 4A	27.681.105 17.681.105		1978	60

The correspondence and contacts relative to this announcement *shall be made through the following address:*

CENTRAIS ELÉTRICAS DO NORTE DO BRASIL S/A – ELETRONORTE
Purchasing Division – SAQC
ATT. Mr. Mauricio José Ribeiro
SCN Quadra 06 Conjunto A Bloco C Sala 705
Supercenter Venâncio 3000
CEP: 70710 Brasília – DF
Telephone number: (061) 212-6633
Telex: (061) 1279
Telefax: 225-9755

The interested companies shall inform:
- *Main characteristics of the company*
- Which engines the company is interested in reconditioning
- Previous experience with this kind of engine or similar
- Supplier of replacement parts
- Most important customers
- A draft of the contract can be obtained at the above mentioned address.
- *The interested companies shall respond to this annoucement 30 days from the date of its assuing.*

TATE'S CAIRN TUNNEL & APPROACHES, HONG KONG
NOTICE OF PREQUALIFICATION OF TENDERERS FOR MECHANICAL & ELECTRICAL WORKS

Gammon-Nishimatsu Joint Venture, the Main Contractor for the Design and Construction of the Tate's Cairn Road Tunnel and Approaches intends in July 1988 to invite tenders from prequalified Contractors *for the execution of the whole of the Mechanical and* Electrical Works.

The Tate's Cairn Tunnel and Approaches which shall link North East Kowloon with Shatin are being built and operated under the terms of a franchise recently awarded by the Government of Hong Kong. The Project consists of elevated and at grade approach roads connecting to twin 4 km long dual land road tunnels. Commercial operation of the Mechanical and Electrical Works tender will include:-

Mechanical Ventilation, Lighting, Power Supply, Fire Protection, Traffic Surveillance, Toll Collection.

and is proposed to be let as one contract.

Contractors having experience of integrated mechanical and electrical systems for major road tunnels who wish to obtain *pre-qualification documents are invited to apply in writing* (English), before 11 June, 1988 to:-

The Project Manager, *Gammon-Nishimatsu Joint Venture*, Room 508, Star House, Salisbury Road, Kowloon, Hong Kong.

Telephone 3-694641. Telex 56326 NICON HX. Fax 3-7221712

Contractors are advised that joint ventures will be considered and importance will be placed upon Hong Kong experience. Contractors not having such experience should considered this criteria when completing the pre-qualification submission.

Gammon-Nishimatsu Joint Venture reserves the right to reject any Contractor's application at its discretion and without explanation.

EREGLI IRON AND STEEL WORKS, INC. TURKEY (ERDEMIR)

1 - Announcement is hereby made for the following two projects included within the "CAPACITY IMPROVEMENT AND MODERNIZATION *PROJECT" in the* integrated steel plant of Eregli Demir ve Celik Fabrikalari T.A.S. located at Kdz-Eregli, Turkey. The project is aimed to increase production, improve product quality and reduce production costs and energy consumption including general and detailed engineering services and fabrication.

Project Names:

A. NO. 2 PICKLE LINE REVAMP

This project comprises the complete revamp of the present No.2 Pickling Line. The present line with a capacity of approximately 450.000 Metric Tons/Year has four pickling tanks entry end and delivery end looping pits and a maximum process (tank) section speed of 110 mpm. The line has a single processor entry end and a single tension reel delivery end. *The line* will be completely revamped with double (2) processors at the entry end, double (2) tension reels at the delivery end, loop car type storage for both entry and delivery ends and an increase of process section speed to 160 mpm. A scale-breaker/strecher-leveller shall be added and all new equipment designed *to use double size coils*. A new acid regeneration plant shall be added to eliminate dumping or neutralizing of waste sulphuric acid. The revamped line shall have a capacity of approximately 800.000 Metric Tons/Year.

B. HOT ROLLED TEMPER AND RECOIL LINE

This specification is for a new line to process hot rolled coils. The line shall be located in a new building in the area of the present shipping buildings. The line shall have a capacity of 600.000 Metric Tons/Year and a maximum speed of 400 mpm. The line will be designed to process double size *(maximum 28.000 kg) coils and to temper roll, sidetrim, oil* and cut delivery end coils to the size and weight required by the customers.

2 - Tender documents for each project mentioned under A and B above may be obtained from the following address after depositing 750.000.- Turkish lira for each project to ERDEMIR Cashier's Office at Kdz-Eregli-TURKEY indicating the project name:

ERDEMIR, Vice President Purchasing
Foreign Purchases Department (SA.17)
Kdz-Eregli, TURKEY

3 - Pre-Bid conference and Plant Site visits shall be conducted on 21 July and 04 August 1988 respectively. Bid closing dates for both projects A and B above are 2nd *September and 16th September 1988 respectively and no* sealed bids shall be taken into consideration for evaluation if submitted to our above mentioned company address after the said date (s).

4 - Our company reserves the right to place the order either partially or completely with any bidder or to cancel the tender completely. The receipt of the quotations shall be in no way be binding upon our company.

5 - As the finance source either SUPPLIERS'S CREDIT or any credit in foreign currency to be provided by ERDEMIR shall be utilized.

6 - The BIDDER or it's technology supplier in case the BIDDER is a trading company must have had successful experience in design manufacturing, supply and start-up of similar type projects. Subsuppliers so selected by *BIDDER or technology suppliers must be well experienced companies in* their respective fields also. Companies which intend to participate in this international bidding must fill in and return preprinted "QUESTIONNAIRE FORMATS" attached to the tender documents in order to provide information concerning their experience until 30 June 1988 and 13 July 1988 respectively.

APPEL A LA PREQUALIFICATION D'ENTREPRISES

ZAIRE

SOCIETE NATIONALE DES CHEMINS DE FER ZAIROIS

Travaux de renouvellement de voie

Prequalification.
La Societe Nationale des Chemins de Fer Zairois (S.N.C.Z.) invite les entreprises zairoises et etrangeres specialisees dans les *travaux de renouvellement de voie*, d'assainissement d'infrastructure et de terrassement a soumettre leur candidature pour les projets de travaux de renouvellement de la voie appartenant au reseau ferre de la S.N.C.Z.

Les travaux de renouvellement de la voie d'assainissement d'infrastructure et de terrassement qui feront l'objet d'un appel d'offre international conformement aux procedures en vigueur a l'IDA/BAD comprennent:

Le renouvellement integral de 193 km de voie repartis en deux troncons:

- PUMPI-LUILU (Region du SHABA): 90 km
- KAMINA-TSHIPASA (Region du SHABA): 103 km

Ces travaux ont principalement pour objet la gestion d'une carriere de production de ballast, et l'execution des travaux comprenant entre autres:

- le depose de la voie ancienne et des branchements;
- le regalage de la plate-forme et son assainissement;
- le criblage du ballast et la mise en oeuvre du complement pour assurer le profil defini;
- la pose et le dressage de la voie, l'assainissement des plates a niveau, la construction d'ouvrage de protection de talus, et d'ouvrages d'assainissement annexes;
- les travaux de terrassement dans la zone de KOLWEZI (Region du SHABA) et de KANANGA.

Deux sections additionnelles de respectivement 27 km (LUBUDI-BUYOFWE) et 51 km (LUENA-KILENGE) feront le cas echeant, egalement l'objet d'un appel d'offre restreint.

Pour ces travaux, la S.N.C.Z. fournira le materiel de voie (rails, branchements, et traverses).

Les travaux sont finances pour partie par l'IDA/BAD et pour partie par la S.N.C.Z. Le lancement de l'appel d'offre international est prevu pour le mois d'octobre 1988.

Les entreprises zairoises ainsi que celles appartenant aux pays membres de l'IDA/BAD et qui disposent d'une experience confirmee dans des travaux similaires sont invitees a se prequalifier pour ces travaux.

L'evaluation de la prequalification s'effectuera sur la base de l'experience, de la capacite technique et financiere de l'entreprise.

L'association entre plusieurs entreprises etrangeres et zairoises est permise.
Les dossiers de prequalification peuvent etre obtenus aux deux adresses reprises ci-dessous a partir du 15 mai 1988 contre paiement d'un montant de 50.000 F.B. payable au compte N0 603-2322970-58 ouvert par la S.N.C.Z. aupres de la banque "BELGOLAISE" sise a 1, Cantersteen -B. 1000 Bruxelles (Belgique).

1. SOCIETE NATIONALE DES CHEMINS DE FER ZAIROIS (S.N.C.Z.)
Direction Technique
B.P. 297 Place de la Gare, 1
LUBUMBASHI - Republique du Zaire
Teleph. No 22.34.30

2. SOCIETE NATIONALE DES CHEMINS DE FER ZAIROIS (S.N.C.Z.)
Agence de Bruxelles
Rue d'Arlon, 108
1040 - BRUXELLES BELGIQUE
Teleph. No. 230.13.75
Telex. Sonexa B 22443

La date de cloture de l'appel de prequalification est fixee au 15 juillet 1988.

Company Notices

GENERAL MOTORS CORPORATION

NOTICE IS HEREBY GIVEN that resulting from the Corporation's Declaration of a Dividend of $1.25(gross) per share of the Common Stock of the Corporation, payable on the 10th June, 1988 there will become due *in respect of Bearer Depositary Receipts* a gross distribution of 6.25 cents per unit.

The Depositary will give further notice of the Sterling Equivalent of the net distribution per unit payable on and after the 15th June, 1988.

All claims must be accompanied by a completed Claim Form and USA *Tax Declaration obtainable from the Depositary*. Claimants other than UK banks and Members of The Stock Exchange must lodge their Bearer Depositary Receipts for marking. Postal Claims cannot be accepted. The Corporation's First Quarter Report for 1988 will be available upon application to the Depositary named below.

Barclays Bank PLC
Stock Exchange Services Department
54 Lombard Street
London EC3P 3AH

THE SCOTTISH AGRICULTURAL SECURITIES CORPORATION p.l.c.
5½% DEBENTURE STOCK
1986 - 1988

Notice is hereby given that the above Stock will be redeemed at par on maturity at 1st September 1988. It will not be necessary for Stock Certificates to be surrendered upon repayment.

The final interest payment due on the 1st September 1988 will be paid in accordance with existing instructions.

By Order of the Board
Nigel B. Richardson, Secretary,
48 Palmerston Place,
Edinburgh, EH12 5BR.

Obituaries

MURRAY

Thomas George (Tom) died tragically on 17th May 1988. Very deeply loved and missed by all his family and friends. The *funeral is on 25th May at 2 pm at Holy* Trinity Church, Northwood, Middlesex, followed by cremation at Breakspear Crematorium at 2.45 pm.
All enquiries to:
T.A.Ellement and Son, Pinner,
Tel: 01-866 0324 (24 hours).

Clubs

Art Galleries

DIARY DATES

PARLIAMENTARY

TODAY

Commons: Opposition debate on "The Crisis in Housing."

Firearms (Amendments) Bill, remaining stages.

Lords: Dartford-Thurrock Crossing Bill, report.

Local Government Finance Bill, committee.

Protection of Animals Bill, second reading.

Select committees: Public Accounts: subject, Scottish Development Agency and the private sector. Witnesses: Mr J. A. Scott, secretary, Industry Department for Scotland, and Mr Iain Robertson, chief executive, Scottish Development Agency. (Room 16, 4.45 p.m.)

Televising of the proceedings of the House. (Room 8, 6.15 p.m.)

TOMORROW

Commons: Lords amendments to the Employment Bill.

Lords: Scottish *Development* Agency (Oban South Pier) Order Confirmation Bill, third reading.

Local Government Finance Bill, committee.

Scotch Whisky Bill, second reading.

Select committee: Transport: subject, air traffic control safety. Witnesses: Guild of Air Traffic Control Officers and Guild of Airline Pilots and Navigators. (Room 17, 4.15 p.m.)

WEDNESDAY

Commons: Motion to take note of the White Paper on Developments in the European Community, July to December 1987.

Lords: debate calling attention to the importance of maintaining the independence of British broadcasting.

Motion on Housing Defects (Scotland) Order.

Unstarred question on Government action over quality in the creative and performing arts.

Select committees: Environment: subject, toxic waste. Witness: Institute of Waste Management. (Room 21, 10.30 a.m.)

Foreign Affairs: subject, political impact of the arms control and disarmament process. Witnesses: Mr Francois Heisboerg and Mr Hans Binnendijk. (Room 20, 10.30 a.m.)

Trade and Industry: subject, petrol retailing. Witnesses: Shell, *Petrol Retailers Association* and Messrs Dunkerley. (Room 15, 10.30 a.m.)

Defence: subject, statement on the 1988 defence estimates. Witnesses: Sir Michael Quinlan, MoD, and other officials. (Room 16, 10.40 a.m.)

Energy: subject, electricity privatisation. Witnesses: British Coal Corporation and British Railways Board officials. (Room 8, 11 a.m.)

Treasury and Civil Service sub-committee: subject, Civil Service management reform: The Next Steps. Witnesses: Sir Robin Ibbs and members of the Efficiency Unit. (Room 19, 11.30 a.m.)

Agriculture: subject, Chernobyl, the Government's reaction. Witnesses: *Dr David* Clark MP, National Radiological Protection Board and representatives of the farming press. (Room 5, 4.00 p.m.)

Education Science and Arts: subject, educational provisions for the under-fives. Witnesses: Association of County Councils and National Union of Teachers. (Room 6, 4.15 p.m.)

Employment: subject, urban development corporations. Witnesses: Newham London Borough council and Roger Tym and Partners. (Room 8, 4.15 p.m.)

Public Accounts: subject, Ministry of Defence: The Profit Formula. Witnesses: Mr P. K. Levene, chief of defence procurement. (Room 16, 4.15 p.m.)

Social Services: subject, resourcing the NHS. Witnesses: Prof Maynard, Centre for Health Economics, York University, and Prof Culyer, Department of Economics and Related Studies, York University. (Room 21, 4.15 p.m.)

Transport: subject, airline competition: CRS. Witnesses: TWA-North West. (Room 17, 4.15 p.m.)

Treasury and Civil Service: subject, PEWP - estimates relating to Chancellor's Department. Witnesses: Chancellor's Department (Central Office of Information, Inland Revenue and Royal Mint). (Room 20, 4.30 p.m.)

THURSDAY

Commons: Motion for the spring adjournment.

Motion on short speeches and public petitions.

Motion on the Lord Chancellor's Salary Order.

Lords: Dartford-Thurrock Crossing Bill, third reading.

British Steel Bill, second reading.

Health and Medicines Bill, second reading.

Select committee: Trade and Industry: subjects, petrol retailing and British Aerospace acquisition of Rover. Witnesses: Asda and TUC; TGWU, AEU, MSF. (Room 15, 10.30 a.m.)

FRIDAY

Commons: Adjournment motions.

FINANCIAL

TODAY

COMPANY MEETINGS-
Glynwed Intl., Headland House, New Coventry Road, Sheldon, Birmingham, 12.00
Kleinwort, Benson, Lonsdale, 20 Fenchurch St. E.C., 12.00
Lilleshall Co. (The), The Merchant Taylors Hall, Threadneedle St. E.C., 11.30
Murray Intl. Tst., 163 Hope St. Glasgow, 10.30
Ocean Transport & Trading, India Bldgs., Liverpool, 2.30
T & S Stores, Post House Hotel, Chapel Lane, Great Barr, Birmingham, 12.00
BOARD MEETINGS-
Finals:
Gates (Frank G.)
Goldberg
Hartwell
JS Pathology
Yorkshire TV
Interims:
Assoc. British Foods
Cons Buffetdustan
Griqualand West Diamond Mining
Holmes & Marchant
Northern Industrial
Radio City
Tunstall
Whewey
Williamson Tea
DIVIDEND & INTEREST PAYMENTS-
Aon Corp 32cts.
BTR 5.5p
Brentnor Exhibitions 2.4p
British Syphon Inds. 2.6p
Colorgraphic 2.17p
Cons. Frightways 24.5cts.
Delaney Grp. 2.2p
Export-Import Bk. of Korea Fltg. Rate Nts. 1994 $394.57
Halifax Bldg. Soc. Fltg. Rate Ln. Nts. 1996 £117.22
Halls Homes & Gardens 2.55p
Hambro Countrywide 1.75p
Hunkeex Corp. 6cts.
IMI 4.25p
IOM Steam Packet 8p
Kleinwort Benson Fin. BV Gtd. Fltg. Rate Nts. 1991 $90.84
Kwik-Fit Hldgs. 1.6p
Manders 7.8p
Manufacturers Hanover Tst. Fltg. Rate Sub. Cap. Nts. 1994 £117.22
Realty Useful Grp. 4.5p
Record Hldgs. 0.55p
Sherwood Computer Services 3p
Slough Estates 4.5p
Sunderland (Borough of) 11¼% Red. 2008 5.625pc.
TSW Hldgs. 0.9p
Treasury 13¼% 1993 6.625pc.
Trinidad & Tobago (Rep. of) 12¼% Ln. 2009 12¼pc.

TOMORROW

COMPANY MEETINGS-
Associated British Ports Hldgs., Ironmongers' Hall, Shaftesbury Place, Barbican, E.C., 12.00
British Fittings Grp., The Stone Manor Hotel, Kidderminster, 12.00
Cosalt, Lowestoft Drive, Ipswich, Suffolk, 3.00
George Wimpey, Abraham Lincoln Room, Savoy Hotel, W.C., 12.00
Guardian Royal Exchange Ass., 68 King William St. E.C., 4.00
Johnston Grp. Cleaners, 4 Marsey Road, Bootle, Merseyside, 11.30
Jutland Hldgs., Rettles Nightclub, 257 Kings Road, S.W., 11.00
RKF Grp., Chatsworth Hotel, Steyne, Worthing, West Sussex, 11.30
Rotork, Royal National Exhibition Centre, Birmingham, West Midlands, 11.30
Savoy Hotel, The Savoy Hotel, W.C., 12.00
Scott & Robertson, 96 Port Glasgow Road, Greenock, 12.00
BOARD MEETINGS-
Finals:
Biomechanics Intl.
British Airways
Fine Art Developments
Monks Inv. Tst.
Noble & Lund
Readicut
Thames TV
Trinoco
Interims:
Capital Radio
Chesterfield Props.
Countryside Props.
Leeds Group
Polly Peck
Thornton (G.W.)
VPI Group
DIVIDEND & INTEREST PAYMENTS-
British Fittings Grp. 4.635p
Investors in Industry Intl. BV Gtd. Fltg. Rate Nts. 1994 $23.21
London & Strathclyde Tst. 1.1p
Marzonal Hldgs. 8¾% Cnv. Uns. Ln. 2000 4.375pc.
Norsk Hydro AS 14d
Royal Bank of Canada 52cts.
Royal Dutch Petroleum Co. NV FL10 (Reg.) FL3.5
Do. (BR) FL3.5
Tibbett & Britten Grp. 3p
Trench Mines Malaysia Berhad 18sen.
Wilson Bowden 2.2p

WEDNESDAY MAY 25

COMPANY MEETINGS-
Baird (Wm.), Albany Hotel, Bothwell St. Glasgow, 12.00
Booker, Edwardian Room One, St. James Court Hotel, Buckingham Gate, S.W., 12.00
Bonded Laminates Prophex, 250 Old Ford Road, E., 3.00
Brabs Brothers, Painters Hall, Little Trinity Lane, E.C., 11.30
Cityvision, The Insurance Institute of London, 20 Aldermanbury, E.C., 10.30
Connells Estate Agents, Brown's Hotel, Dover Street, W., 10.30
Ealing Electro-Optics, Room 200, Great Eastern Hotel, Liverpool Street, E.C., 2.30
Early's of Witney, Witney Mill, Witney, Oxfordshire, 2.30
Elys (Wimbledon), 16 St. George Road, Wimbledon, S.W., 12.00
Epwin Group, Telford Moat House, Forgegate, Telford Centre, Telford, Shropshire, 12.00
Executex Clothes, The Queens Hotel, City Square, Leeds, 11.30
Ex-Lands, 25 City Road, E.C., 12.00
Lancaster, Suffolk Room, Great Eastern Hotel, Bishopsgate, E.C., 11.00
Metalrax, Plough & Harrow Hotel, Hagley Road, Edgbaston, Birmingham, 11.45
Molyns Hldgs., 39 Jermyn Street, S.W., 12.00
NMW Computers, Colton Hotel, High Street, Nantwich, Cheshire, 12.00
P-E Intl., Savoy Hotel, Strand, W.C., 12.00
Prudential Corp., 142 Holborn Bars, E.C., 12.15
Ronald Martin Groome, Holiday Inn, Crowne Plaza, Manchester, 12.00
Stanley (A.G.), The Tavern Suite, Butchers Hall, 1 Bartholomew Close, E.C., 12.00
Travis & Arnold, Northampton Moat House, Silver St. Northampton, 12.00
Western Motor Hldgs., The London Metropole Hotel, Edgware Rd. W., 12.00
BOARD MEETINGS-
Finals:
Cityvision
Courtaulds
Dunhill Hldgs.
High Gosforth
Hughes (H.T.)
Lilley (F.J.C.)
Interims:
Cauldon Group
Gaynor Group
Hanson
Ranks Hovis McDougall
Saatchi & Saatchi
Sprayhawk
DIVIDEND & INTEREST PAYMENTS-
A.B. Electronic Products Grp. 3p
Aluminium Co. of America 30cts.
Exxon Corp. 90cts.
Estates & General Inv. 2p
Hornby Grp. 4p
MTM 2p
Merrill Lynch & Co. 25cts.
Murray Intl. Tst. 3.75p
Prudential Corp. 22.5p
Savage Grp. 1p
Scottish Cities Inv. Tst. 7p
Do. A NV 7p
Sun Life Ass. Soc. 22.2p
Tyzack (W.A.) 1p
WSP Hldgs. 0.2p

THURSDAY MAY 26

COMPANY MEETINGS-
Admiral Computing Grp., City of London Club, Old Broad St. E.C., 12.00
Bank of Wales, Park Hotel, Cardiff, 2.30
Barlows, St. James Club, Charlotte St. Manchester, 12.00
Cannon Street Invs., Royal Westminster Hotel, Buckingham Palace Road, S.W., 12.00
City and Commercial Inv. Tst., 11 Devonshire Square, E.C., 12.00
Clayton, Son & Co., The Queens Hotel, Leeds, 2.00
Eadie Hldgs., 155 St. Vincent St. Glasgow, 11.30
F & C Pacific Inv. Tst., 1 Laurence Pountney Hill, E.C., 12.00
Feedex Agricultural Inds., Daisy Hill, Burstwick House, Burstwick, 12.00
Fitch & Co. Design Cons., The Chartered Society of Designers, 29 Bedford Square, W.C., 12.00
Laing (John), Main Hall, Dacorum District Council Pavilion, Marlowes, Hemel Hempstead, Hertfordshire, 2.15
Laporte Inds., The Butchers Hall, 87 Bartholomew Close, E.C., 12.00
Landu Hldgs., Tudor Hill House, London Road, Sevenoaks, Kent, 11.30
London Finance & Inv. Grp., 25 City Road, E.C., 12.00
London & Scottish Marine Oil, Plaisterers Hall, E.C., 11.30
MS Cash & Carry, Whitley Stand, Haydock Park Racecourse, Newton-le-Willows, Merseyside, 12.30
Magnolia Grp., Sutton Road, Rochford, Essex, 12.00
More O'Ferrall, The Chesterfield Hotel, 35 Charles St. W., 12.00
Morrison (Wm.), Victoria Hotel, Bridge St., Bradford, West Yorkshire, 11.00
Nias (J.), Spear & Jackson (prevlously), St. Pauls Road, Westbury, 12.00
Newarthill, Southampton Hotel, 92 Southampton Row, W.C., 12.00
Ocean Wilsons Hldgs., The Theatre Royal, Theatre Square, Nottingham, 12.00
Rea Brothers, Great Eastern Hotel, Liverpool St. E.C., 12.00
Reckitt & Colman, Connaught Rooms, 19 Great Queens St. W.C., 11.00
BOARD MEETINGS-
Finals:
Aitken Streetline
Anglia Securities
Asher Streetlines
Carless Capel
Cashbox
Davenport Knitwear
Hazlewood Foods
Hunting Thompson & Borwick
Parkland Textile
Prowley
Regina
Rodime
Interims:
Anglo & Hallwood
Archer (A.J.)
Assoc. Fisheries
Crestmont
Doloon Park
Hook Group
Investing in Success
Irish Distillers
RHP Group
Scottish Inv. Tst.
Smart (J.)
Warner Estate Hldgs.
Westbury
Whitecroft
DIVIDEND & INTEREST PAYMENTS-
Abbey Life Group 2.3p
Alexander Workwear 2.1p
Armstrong Equipment 1.1p
Ash & Lacy 3p
Aspen Communications 3.5p
Associated British Ports Hldgs. 5p
Barlows 0.75p
Barratt Developments 3.75p
Beecham 7.5p
Billam (J.) 2.5p
Bowater Inds. 5.5p
Bowthorpe 1.2p
British Vita 3p
Brocks Grp. 4p
Brooke Bond 6.35p
British Inland Airways 5p
Brown & Jackson 10.72% 1st Cm. Pf. 5.375p
CCP Grp. 1.5p
Cardo Engineering 1.8p
Computer People Group 2.4p
Conder Group 2.5p
Cranes Group 2.4p
Consolidated Estate Agents 1.5p
Drayton Consolidated Tst. 1.9p
Elys (Wimbledon) 11p
F. & C. Pacific Inv. Tst. 0.75p
Fitch & Co. Design Consultants 2.9p
Forward Technology Industries 1p
Gledhill 4.4p
Great Western Resources 2p
Groves 7p
Guinness 6.5p
Ibstock Johnsen 2.55p
Johnson Matthey 3p
Ketson 5p
Laing (John) 3.2p
Lancaster 2.5p
Ld Cash & Carry 2.76p
Magnolia Grp. 3.5p
Marshalls Gift & Ass. Soc. 2p
Mobile 7.1p
Morrison (Wm.) 1.11p
Morris Ashby 2.13p
Muirhead 3p
Petrolex 3.5p
Pittards 5p
Prestwich 1.5p
Rentokil 2.7p
Royal Bank of Scotland 5p
Rugby Portland Cement 3.5p
Sharpe & Fisher 3p
Stewarts 1.6p
Stockley 1p
Swire Grp. 3p
T & S Stores 1.8p
Thorpe (F.W.) 2.5p
Tibbett & Britten 3p
Tiphook 7.5p
Tyzack Turner Group 3p
Valin Pollen 5p
Volex Grp. 2.8p
Walker (Peter) Hldgs. 1p
Waste Management 2.5p
Vickers 4p

SATURDAY MAY 28

DIVIDEND & INTEREST PAYMENTS-
Abbey Life Group 2.75p

SUNDAY MAY 29

DIVIDEND & INTEREST PAYMENTS-
Hunting Gate Group 2p

Sizer, Howard Hotel, Temple Place, W.C., 12.00
Sutherland, Red Lion Hotel, Worksop Road, Todwick, Nr. Sheffield, 11.00
Turriff Corp., The Honourable Artillery Co., Armoury House, City Road, E.C., 11.30
Weir Group, Merchants' Hall, 30 George Square, Glasgow, 12.00
Willis Faber, 10 Trinity Square, E.C., 12.00

Trade Fairs and Exhibitions: UK

May 24-27
Chelsea Flower Show (01-834 4333)
Royal Hospital

May 27-June 5
Homes '88 (021-780 4171)
NEC, Birmingham

June 7-9
International Services and Equipment for Aircraft and Airport Operators Exhibition - AIRPORT (0202 304641)
NEC, Birmingham

June 12-15
Business to Business Exhibition (01-729 0677)
Business Design Centre, London

June 16-18
Personal Investment Marketing Show and Conference - PIMS (01-940 2244)
NEC, Birmingham

June 19-22
Royal Highland Show (031-333 2444)
Exbn & Trade Centre, Edinburgh

June 21-23
European Computer Communications Conference and Exhibition - NETWORKS (01-868 4466)
Wembley Centre

July 7-10
Antiques Fair (04447 2514)
Corn Exchange, Brighton

July 21-28
Trade Opportunities in China (seminar on July 22)(0772 203020)
Preston Guild Hall

Overseas Exhibitions

Current
International Spring Fair (Technical) - BNV(until May 26) (021-454 3385)
Budapest

June 5-8
International Wallpapers, Wallcoverings, Furnishing Textiles and Household Linen Exhibition - PARITEX (01-225 5566)
Paris

June 8-12
International Wine Exhibition - VINOVA (01-977 4551)
Vienna

June 11-12
National Country Fair (Dublin 338269)
Limerick

June 20-23
Pacific Transport Freight Distribution Exhibition and Conference (01-642 7688)
Singapore

June 21-24
International Jewellery and Gemstones Fair - INTER-JEWEL (02403 29406)
Hong Kong

June 25-July 1
Intrnational Chemical Fair - INCHEBA (01-378 7778)
Bratislava

Business and management conferences

May 24-25
Institution of Mechanical Engineers: Advance handling systems-applications and experiences (01-222 7899)
1 Birdcage Walk, London

May 25-27
EVCA in association with Financial Times Conferences: Venture Symposium 88 - The internationalisation of venture capital (01-925 2323)
Hotel Inter-Continental, London

May 26
I.P. Sharp: The Securities Programme on stock lending (01-222 7033)
Barbican Centre, London

June 8-9
Dataquest Industry Conference: Planning and *positioning for* the 90s (01-353 8807)
Gleneagles Hotel, Scotland

June 8-9
Intro UK: Recruiting and retaining information technology personnel (0491 681010)
Olympia Conference Centre, London

June 9
The Institute of Economic Affairs: The future of town and country planning (01-799 3745)
Royal Horseguards Hotel, London

June 13-14
Financial Times World Gold Conference (01-925 2323)
Vienna

June 21-22
Financial Times/National Bank *of Hungary*: Doing business with Eastern Europe (01-925 2323)
Budapest

June 22
The Economist Conference Unit: Training and developing Britain's managers - the management charter initiative and its implications (01-839 7000)
Royal Lancaster Hotel, London

June 23
The Chartered Institute of Management Accountants: Management of company turnaround (01-637 2311)
63 Portland Place, London

June 23
Peat Marwick McLintock: Corporate publishing - overhead or opportunity? (01-236 8000)
Queen Elizabeth II Conference Centre, London

June 24
HS Conference: The tenth annual rent review conference (01-935 2382)
Cafe Royal, London

June 27-28
Financial Times: Telecommunications and the European business market (01-925 2323)
Hotel Inter-Continental, London, W1.

June 28
The Economist Conference Unit: Drinking water quality: clarifying the issues (01-839 7000)
Park Lane Hotel, London

June 30-July 1
Frost & Sullivan: Business intelligence - how to gain and retain a competitive advantage (01-730 3438)
London

July 1-3
CRAC Insight Programme: Insight into entrepreneurship (0223 460277)
Bristol University

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

هكذا من الأصل

WORLD STOCK MARKETS

AUSTRIA

1988 High	Low	May 20	Price Sch
2,060	1,850	Creditanstalt	1,940
2,880	2,600	Goesser	2,710
10,180	9,350	Interunfall	10,050
7,440	4,660	Jungbunzlauer	7,190
384	340	Laenderbank	365
675	632	Perlmooser	640
123	76	Steyr-Daimler	76
695	555	Veitscher Mag	610

BELGIUM/LUXEMBOURG

1988 High	Low	May 20	Price Frs.
2,930	2,490	B.B.L.	2,700
13,900	13,500	Banque Gen. Du. L.	13,650
13,300	13,000	Bank Int. A	13,000
9,600	6,700	Bekaert B	9,410
5,560	4,200	Ciment CBR	5,380
193	123	Cockerill	178
8,860	4,800	Colruyt	8,700
5,000	2,920	Delhaize	4,200
4,900	4,130	EBES	4,150
870	470	Fabrique Nat	750
1,650	830	GB Inno BM	1,186
3,275	2,210	GBL (BrtxL)	3,000
5,740	4,150	Generale Bank	5,010
8,500	5,730	Gevaert	7,060
8,000	5,800	Hoboken	7,810
3,875	3,305	Intercom	3,305
4,185	3,150	Kredietbank	4,125
11,900	10,600	Pan Holdings	11,700
11,675	8,300	Petrofina	11,175
1,545	1,264	Raffinerie Tirle	1,362
6,000	4,100	Royale Belge	5,680
8,530	4,520	Soc Gen Belge	4,520
12,975	8,090	Sofina	12,300
12,500	9,090	Solvay	12,200
200	135	Stanwick Intl	180
7,090	5,070	Tractebel	6,500
9,200	6,910	UCB	8,370
5,100	3,590	Wagons Lits	5,010

FRANCE (continued)

1988 High	Low	May 20	Price Frs.
2,500	2,000	Carrefour	2,299
465	330	Club Mediterranee	414
442	304	Cie Bancaire	404
280	211	Cie Fin. de Suez	230
348	275	Cofimeg	275
252.5	181.8	CGE	241.3
2,215	1,310	Dassault	2,200
399	274	Darty	399
577	401	Dumez S.A.	560
1,155	900	Eaux (Cie Gen)	1,133
289	229	Elf-Aquitaine	281
2,570	1,954	Essilor	2,265
766	555	Gen. Occidentale	630
557	374	Havas	545
182.5	123	Imetal	180
2,028	1,520	LVMH	2,028
1,239	968	Lafarge Coppee	1,155
3,169	2,300	L'Oreal	3,169
2,635	1,900	Legrand	2,635
58	30	Maisons Phenix	48
163	120	Matra S.A.	148
193	136	Michelin B	177
1,810	920	Midi (Cie)	1,431
79	37	Moulinex	67
106	76	Nord Est	80
360	257	Paribas	360
961	600	Pernod Ricard	925
707	481	Perrier	705
1,060	790	Peugeot S.A.	1,019
449	325	Printemps Au	419
965	677	Radiotech	790
2,725	1,910	Redoute	2,381
876	490	Roussel-Uclaf	803
438	380	St. Gobain	419
489	403	Sefimeg	409
815	630	Skis Rossignol	730
5,505	2,945	Telemech Elect	5,505 #
176	120	Thompson (CSF)	167
362	319	Total-Petroles Fr.	348
429	316	Valeo	380

ITALY

NETHERLANDS

SWEDEN

SWITZERLAND

GERMANY

DENMARK

FINLAND

FRANCE

NORWAY

SPAIN

SOUTH AFRICA

JAPAN

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

SINGAPORE

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
Closing prices May 20

MONTREAL
Closing prices May 20

OVER-THE-COUNTER

Nasdaq national market, Closing prices May 20

Continued from Page 33

INDICES

NEW YORK — DOW JONES

	May 20	May 19	May 18	May 17	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	1952.59	1958.72	1951.09	1986.41	2110.08 (12/4)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	87.69	87.80	87.85	88.05	91.25 (3/3)	86.12 (4/1)	-	-
Transport	796.59	796.89	796.74	813.47	904.12 (23/3)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	168.74	168.03	167.08	167.73	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 1978.78 (1963.86) Low 1940.48 (1921.58)

STANDARD AND POOR'S	May 20	May 19	May 18	May 17	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite‡	253.02	252.57	251.35	255.39	271.56 (13/4)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	293.46	292.97	291.76	296.71	316.53 (13/4)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	22.1	22.05	21.83	22.15	24.04 (3/3)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	143.3	143.01	142.51	144.65	153.20 (13/4)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	291.84	291.79	292.79	296.57	306.59 (12/4)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp.	366.03	366.25	366.99	372.27	383.41 (13/4)	331.97 (12/1)	455.26 (26/8/87)	54.87 (31/10/72)

	May 13	May 6	Apr. 29	year ago (approx.)
Dow Industrial Div. Yield	3.6	3.54	3.45	2.93
	May 18	**May 11**	**May 4**	**year ago (approx.)**
S & P Industrial div. yield	3.30	3.28	3.04	2.52
S & P P/E ratio	13.21	14.51	14.96	23.17

TRADING ACTIVITY † Volume

Millions	May 20	May 19	May 18
New York	121.768	165.774	209.420
Amex	7.720	9.580	9.965
OTC	(u)	144.795	141.865

NEW YORK	May 20	May 19	May 18
Issues Traded	1,937	1,966	1,976
Rises	824	644	271
Falls	598	833	1,287
Unchanged	520	489	418
New Highs	9	5	10
New Lows	15	29	25

CANADA

TORONTO	May 20	May 19	May 18	May 17	1988 High	1988 Low
Metals & Minerals	2677.5	2668.0	2675.1	2714.2	2877.5 (19/4)	2238.7 (8/2)
Composite	3173.6	3169.0	3178.5	3223.2	3402.4 (12/4)	2977.9 (8/2)
MONTREAL Portfolio	1564.98	1564.36	1572.42	1595.98	1681.54 (12/4)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Ohio Edison	4,223,500	18	+ 1/8
Brown Ferris	2,958,300	21¼	+ ½
Union Carbide	2,382,500	18⅞	+ ½
Texaco	2,080,000	47⅝	− 1⅛
Philadel Elect	1,650,000	17⅛	− 1/8
Lucky Strs	1,568,600	64⅛	+ 1/8
Am T & T	1,501,000	26⅛	+ ¼
Amdahl	1,416,600	31½	+ 4⅞
Payless	1,246,000	21½	− ⅛
Exxon	1,238,800	44⅛	...

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

	May 20	May 19	May 18	May 17	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1456.2	1442.5	1453.8	1438.7	1467.6 (14/4)	1170.7 (10/2)
All Mining (1/1/80)	709.5	695.2	692.2	679.2	773.6 (14/1)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	172.71	172.65	173.29	173.76	178.92 (21/3)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	4644.30	4651.20	4692.00	4691.70	5043.1 (9/3)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	205.99	206.93	203.95	201.87	206.93 (19/5)	180.68 (4/1)
FINLAND						
Unitas General (1975)	680.0	678.2	674.8	664.2	680.0 (20/5)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	310.9	307.0	309.1	308.8	314.3 (5/5)	251.3 (29/1)
Ind. Tendance (31/12/87)	114.7	112.7	112.8	114.5	114.7 (20/5)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	437.05	433.16	442.34	443.63	476.37 (18/3)	396.40 (29/1)
Commerzbank (1/12/53)	1327.4	1314.1	1339.1	1346.3	1457.5 (18/3)	1207.9 (29/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2491.24	2506.76	2533.26	2533.57	2684.13 (14/4)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	471.48	473.74	486.09	480.35	545.07 (18/3)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)†	27393.85	27373.24	27767.58	27819.98	27819.98 (17/5)	21217.04 (4/1)
Tokyo SE New (4/1/68)	2165.87	2170.31	2200.06	2202.83	2213.08 (2/5)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	240.7	239.0	243.1	243.4	280.3 (24/2)	205.7 (4/1)
ANP-CBS Industrial (1970)	198.6	196.4	200.0	200.0	211.7 (14/4)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	381.82	376.66	383.04	(c)	412.04 (11/4)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	965.26	964.31	975.81	(c)	976.06 (6/5)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1212.0‡	1215.0	1173.0	1178.0	1215.0 (19/5)	1154.0 (4/5)
JSE Industrial (28/9/78)	1549.0‡	1549.0	1527.0	1512.0	1564.0 (11/1)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	271.73	271.28	272.87	272.00	281.14 (14/4)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	2908.5	2876.9	2882.0	2856.3	2908.5 (20/5)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	505.5	503.7	506.2	507.0	539.5 (18/3)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	446.3	448.3	451.1	463.4 (13/4)	401.0 (21/1)

**Saturday May 14: Japan Nikkei (c). TSE (c)
‡ Subject to official recalculation
† The Nikkei Index for May 19 should have been 27373.24

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
25⅝	14	AAR s	.36	1.5	20	286	24	24	24	+ ⅛
12⅛	8¾	ACMIn	n1.09e	9.5		497	11½	11⅜	11½	+ ⅛
12¼	10¾	ACMSc	n1.26	11.		815	11⅛	11	11	– ⅛
		ACMSp n				4734	10⅛	10	10	
27	10½	AGS s			16	564	19	17½	19	+1
7⅞	2⅝	AMCA				44	2⅞	2¾	2⅞	
⅝	9-16	AMCA rt				734	u ¾	⅝	5-16	+1-16
8⅝	3⅛	AM Intl				2415	4	3⅞	4	+ ⅛
29⅞	17	AM Int pf	2	11.		5	18⅜	18⅜	18⅜	
65½	26⅛	AMR			10	2232	40⅜	39⅞	40	– ⅛
24¼	19	ANR pf	2.12	9.2		1	23⅛	23⅛	23⅛	+ ⅛
11⅞	5¾	ARX			10	27	7⅞	7⅝	7⅝	– ⅛
72⅞	40⅛	ASA	3	6.9		253	43⅞	42¾	43⅞	+ ½
22⅞	9½	AVX			11	67	15¾	15½	15⅝	
66¼	40	AbtLab	1.20	2.7	15	3871	44¼	43½	43¾	+ ¼
28	15⅛	Abitibi g	1			30	16	15¾	15¾	– ¼
16¾	8½	AcmeC	.40	3.8		62	10⅞	10½	10⅞	– ¼
20	14⅛	AdaEx	3.05e	20.		114	15⅜	15⅛	15⅛	
19⅛	6⅞	AdamMl	.24	1.5	18	9	15¾	15¾	15¾	+ ⅛
24⅞	7½	AMD				10702	16⅛	14½	14½	– ⅞
58¾	29¼	AMD pf	3	7.6		11	40⅛	39⅞	40⅛	+1
11⅞	4⅞	Adobe			11	47	7	6⅞	6⅞	
21¾	17½	Adob pf	2.40	12.		11	20⅜	20⅜	20⅜	
13⅞	6⅛	Advest	.12e	1.8	7	212	6⅝	6⅜	6½	
64¼	39½	AetnLf	2.76	6.8	6	1343	40⅞	40⅜	40⅞	+ ½
83½	41	AllPub	.40	.8	44	259	51⅞	50¾	51	– ⅞
23⅞	13	Ahmans	.88	6.3	9	1687	14¼	13⅞	13⅞	– ⅛
4⅞	1⅛	Aileen				80	3	2⅞	3	
53⅞	28	AirPrd	1	2.2	13	1624	45½	44⅞	45½	+ ⅞
35½	11⅛	AirbFrt	.60	3.4	24	39	17½	17⅜	17½	+ ⅛
16½	6¾	Airgas			17	122	13⅛	12⅞	13	+ ⅛
18¾	13½	Airlease	2.30	13.	9	66	18⅛	17⅞	18	+ ⅛
10	7⅞	AlaP dpf	.87	9.2		10	9½	9½	9½	+ ⅛
98½	81½	AlaP pf	9	9.9		z100	90½	90½	90½	
24	12⅛	AlskAir	.16	.9	15	1116	17½	17¼	17¼	– ⅛
38	14¾	Alberto	.30	.9	20	52	33¾	33	33⅞	
28¼	12⅝	AlbCulA	.30	1.2	15	5	24¼	24⅛	24⅛	
34	20¼	Albtsn s	.56	1.9	15	735	28⅞	28¼	28⅞	+ ⅛
37⅞	18	Alcan s	.72	2.6	9	2455	27½	27	27¼	+ ⅛
30	15⅞	AlcoS s	.68	2.7	12	528	25⅜	24¾	25⅛	+ ⅜
28¼	15⅞	AlexAlx	1	4.6	14	885	21¾	21⅝	21⅝	
59	34¾	Alexdr			725	2	50¾	50¾	50¾	– ⅛
82½	61½	AllegCp			8	88	71¼	70½	71	+1
19	2⅛	vjAlgInt				227	3⅞	3⅝	3⅞	+ ⅛
18⅞	5⅛	vjAlgI pr				20	7⅜	7⅜	7⅜	– ⅛
82¼	17	vjAlgI pfC				9	24	23¾	23¾	+ ¾
34	15⅛	AlgLud	.30e	1.2	10	175	25	24½	24½	– ¾
41½	31⅞	AllgPw	3	8.0	9	464	37½	37⅛	37½	+ ⅛
[illegible]										

Continued on next Page

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

Closing Prices May 20

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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OVER-THE-COUNTER

Nasdaq national market, Closing Prices May 20

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 31

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Has the dollar turned after three years decline?

BY COLIN MILLHAM

LAST WEEK left the financial markets awash with statistics, but not necessarily wiser about the future direction of the dollar and sterling.

The US trade figures were much better than expected, and the dollar climbed above DM1.70 and Y125, but given the size of reduction in the trade deficit the reaction was rather disappointing.

The US trade deficit narrowed substantially in March, because of a sharp rise in exports, leaving the market uncertain whether this level of improvement is sustainable.

Morgan Grenfell believes that the improvement in March was merely a correction, after very bad figures in February, and that the deficit will widen again in April. It expectsa deficit of $14bn in April, compared with $9.8bn in March, and $13.8bn in February.

On the other hand there are economists who feel that the market is looking for a bearish arguement on the dollar, simply because after three years of continuing weakness it cannot tell that the currency has turned the corner.

Mr Nick Parsons, at Union Discount in London, says that too much emphasis has been placed on the fact that US exports in March contained gold shipments to Taiwan and a large amount of aircraft orders.

He points out that aircraft exports are important for the US, even if the monthly figures are erratic, and that gold movements represented a very small amount of the total figure.

Mr Parsons suggests that the US trade deficit has been improving in volume terms for about six months, but this is failing to show up in the headline figures because of the weakness of the dollar.

The recent stability of the dollar is helping to produce an underlying turnround in the trade deficit, even if the monthly figures are erratic.

Mr Parsons adds that if sentiment towards the dollar improves, export values will not only rise in volume terms, but also in real terms, leading to a sharp improvement in the US trade position.

This could pose a question for sterling, and the future of UK interest rates.

Last week's UK economic news was not encouraging, from the point of view of inflation, but with the the pound remaining firm, in spite of lower UK bank base rates, it is likely to take some time before an improving US economic position starts to undermine confidence in the pound.

In recent months investors have tended to build up investments in the UK, but these are largely short term and speculative.

A move back into dollar based investments could hit the pound because international investors tend to be overweightin sterling denominated paper.

Last week's UK economic news suggested that UK economic growth has slowed and that unit labour costs have increased as unemployment has fallen, which does not point to increasing efficiency by industry.

But Mr Kevin Boakes, chief UK economist, at Greenwell Montagu Research, believes there has been significant productivity growth by UK companies, and that Britain has greatly improved its competitive position with the rest of the world. He suggests "there is still enormous scope for further gains."

These continuing debates about the UK economy mean that no one can be totally sure whether the pound will climb to DM3.30 or fall to DM3.00.

£ IN NEW YORK

May 20	Close	Previous Close
£ Spot	1.8635-1.8620	1.8625-1.8635
1 month	par-0.01dis	par-0.01dis
3 months	0.10-0.07pm	0.09-0.07pm
12 months	1.02-0.88pm	0.94-0.88pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May 20	Previous
8.30 am	78.3	78.3
9.00 am	78.3	78.4
10.00 am	78.3	78.4
11.00 am	78.4	78.4
Noon	78.4	78.3
1.00 pm	76.4	78.4
2.00 pm	78.4	78.4
3.00 pm	78.4	78.4
4.00 pm	78.3	76.4

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May.20	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4386	+2.31	+0.87	±1.5344
Danish Krone	7.85212	7.93695	+1.08	-0.36	±1.5404
German D-Mark	2.05853	2.08175	+1.13	-0.31	±1.0981
French Franc	6.90403	7.04066	+1.98	+0.54	±1.3674
Dutch Guilder	2.31943	2.33132	+0.51	-0.93	±1.5012
Irish Punt	0.768411	0.778730	+1.34	-0.10	±1.6684
Italian Lira	1483.58	1544.59	+4.11	+3.23	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency Adjustment calculated by Financial Times.

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
1.800	6.35	6.65	-	7.55	-	0.40	-	1.40
1.825	4.00	4.65	5.15	5.80	0.10	0.75	1.40	2.05
1.850	2.05	3.00	3.55	4.30	0.60	1.60	2.25	3.00
1.875	0.70	1.75	2.30	3.10	1.70	2.70	3.35	4.25
1.900	0.10	0.90	1.45	2.20	3.55	4.35	4.90	5.75
1.925	-	0.40	0.95	1.60	5.85	6.30	6.75	7.45
1.950	-	0.15	0.50	1.10	8.35	8.50	8.85	9.40

Previous day's open int: Calls 469,021 Puts 453,202
Previous day's volume: Calls 19,813 Puts 13,534

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-settlements Jun	Jul	Aug	Sep	Puts-settlements Jun	Jul	Aug	Sep
1.65	18.65	-	-	19.05	1.30	-	-	1.80
1.70	15.70	-	-	16.40	0.55	-	-	1.50
1.75	14.20	12.10	14.40	12.40	0.30	0.30	0.40	0.65
1.80	6.00	7.40	9.60	8.20	0.20	0.70	0.65	2.00
1.85	2.10	5.30	6.00	4.95	0.80	2.25	2.10	3.35
1.90	0.55	1.45	3.30	2.70	4.00	3.40	4.25	5.15
1.95	0.40	1.00	1.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls N/A Puts N/A
Previous day's open int: Calls 610 Puts 647

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Sep	Puts-settlements Jun	Sep
114	604	—	0	—
116	404	—	0	—
118	204	—	0	—
120	12	—	8	—
122	0	—	160	—
124	0	—	360	—
126	0	—	560	—

Estimated volume total, Calls 1978 Puts 2158
Previous day's open int. Calls 50756 Puts 37353

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Sep	Puts-settlements Jun	Sep
78	752	710	0	18
80	552	529	0	37
82	352	362	0	106
84	152	245	0	153
86	0	144	12	252
88	0	100	212	408
90	0	36	412	544

Estimated volume total, Calls 176 Puts 420
Previous day's open int. Calls 4265 Puts 1393

LIFFE FT-SE INDEX FUTURES OPTIONS

CURRENCY RATES

May 20	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	-	0.736504	0.656164
U.S Dollar	6	1.37358	1.22276
Canadian $	8.75	1.70753	1.51867
Austrian Sch.	3	16.4074	14.6352
Belgian Franc	6½	48.7552	43.4386
Danish Krone	7½	8.92346	7.93695
Deutsche Mark	2½	2.33412	2.08175
Neth. Guilder	3¼	2.61530	2.33132
French Franc	9½	7.90358	7.04066
Italian Lira	12½	1732.96	1544.59
Japanese Yen	2½	171.629	152.760
Norway Krone	8	8.49971	7.57317
Spanish Peseta	-	154.441	137.597

POUND SPOT- FORWARD AGAINST THE POUND

May.20	Day's spread	Close	One month	% p.a.
US	1.8605 - 1.8645	1.8615 - 1.8625	0.02dis-0.01cpm	-0.03
Canada	2.3115 - 2.3170	2.3115 - 2.3125	0.29-0.39dis	-1.76
Netherlands	3.54½ - 3.55¾	3.54½ - 3.55½	1¼-¾cpm	3.38
Belgium	66.00 - 66.35	66.15 - 66.25	15-parcom	1.36
Denmark	12.07¾ - 12.11¾	12.09 - 12.10	¾-2⅞oredis	-1.86
Ireland	1.1840 - 1.1885	1.1870 - 1.1880	0.04-0.08pdis	-0.61
W. Germany	3.16½ - 3.17¾	3.16¾ - 3.17¾	1⅛-⅞pfpm	4.26
Portugal	258.05 - 259.35	258.05 - 259.05	71-111cdis	-4.22
Spain	209.35 - 210.10	209.40 - 209.70	36-57cdis	-2.66
Italy	2350 - 2357¾	2361½ - 2362½	3-9liredis	-3.06
Norway	11.51¾ - 11.55	11.52½ - 11.53½	5¾-6½oredis	-6.11
France	10.71¾ - 10.74¾	10.71½ - 10.72½	par-⅝cdis	-0.49
Sweden	11.01¾ - 11.04¾	11.01¾ - 11.02¾	2⅝-2⅞oredis	-2.99
Japan	232 - 233¼	232 - 233	⅞-¾ypm	3.23
Austria	22.25 - 22.35	22.29 - 22.32	7½-6¼grpm	3.70
Switzerland	2.63¾ - 2.65	2.63¾ - 2.64¾	1½-⅞cpm	5.39

Belgian rate is convertible francs. Financial franc 66.50-66.60. Six-month forward dollar 0.45-0.40cpm 12 months 1.05-0.95cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

CURRENCY MOVEMENTS

OTHER CURRENCIES

FORWARD RATES AGAINST STERLING

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

LIFFE £/$ OPTIONS

LONDON (LIFFE)

CHICAGO

CURRENCY FUTURES

EUROPEAN OPTIONS EXCHANGE

BASE LENDING RATES

FT - ACTUARIES WORLD INDICES

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MONEY MARKETS

Trade figures are the economists curse

THE BANK of England reluctantly signalled a cut in UK bank base rates last week.

This followed an apparent end to the disagreement between the Prime Minister, and the Chancellor, on exchange rate policy.

The timing of the signal from the Bank of England was rather surprising however, because it immediately preceded an announcement of the US trade figures for March, which turned out to be much better than expected.

The UK trade figures for April will be published on Friday. Mr Neil MacKinnon, economist at Nomura Research Institute Europe, says there is no doubt that the underlying trends are awful, with export volumes down, and and imports rising.

> UK clearing bank base lending rate
> 7½ per cent
> from May 18

He expects a visible UK trade deficit of £1.1bn, and a current account shortfall of of £500m. Morgan Grenfell agrees with this figure, but James Capel forecasts the visible deficitwill be £750m, and the current account deficit £150m.

The median forecast in the City is for a trade deficit of £1bn and a current account deficit of £400m.

Barclays de Zoete Wedd and ANZ Merchant Bank, are both in line with the median forecast, which if correct will show a worsening from the visible deficit of £854m and the current account shortfall of £254m in March.

The UK economy remains a fascinating subject for economists, because it is so unpredictable.

Mr MacKinnon refers to the trade figures as the economists curse, because they are so difficult to forecast.

It also means that sterling has strong attractions as a speculative currency.

FT LONDON INTERBANK FIXING

(11.00 a.m. May.20) 3 months US dollars		6 months US Dollars	
bid 7⅜	offer 7½	bid 7⅝	offer 7¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	9	One month	5.79	Three year	8.34
Broker loan rate	8-8¾	Two month	6.07	Four year	8.56
Fed funds	7⅛	Three month	6.45	Five year	8.72
Fed funds at intervention	-	Six month	6.96	Seven year	9.00
		One year	7.48	10-year	9.23
		Two year	8.08	30-year	9.35

May.20	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.10-3.25	3.35-3.45	3.45-3.55	3.45-3.60	3.60-3.75	4.50
Paris	7¼-7⅜	7⅛-7⅝	7⅝-7⅞	7⅜-7⅝	7⅝-8⅛	7.25
Zurich	1⅝-1⅞	2-2¼	-	2¼-2⅜	-	-

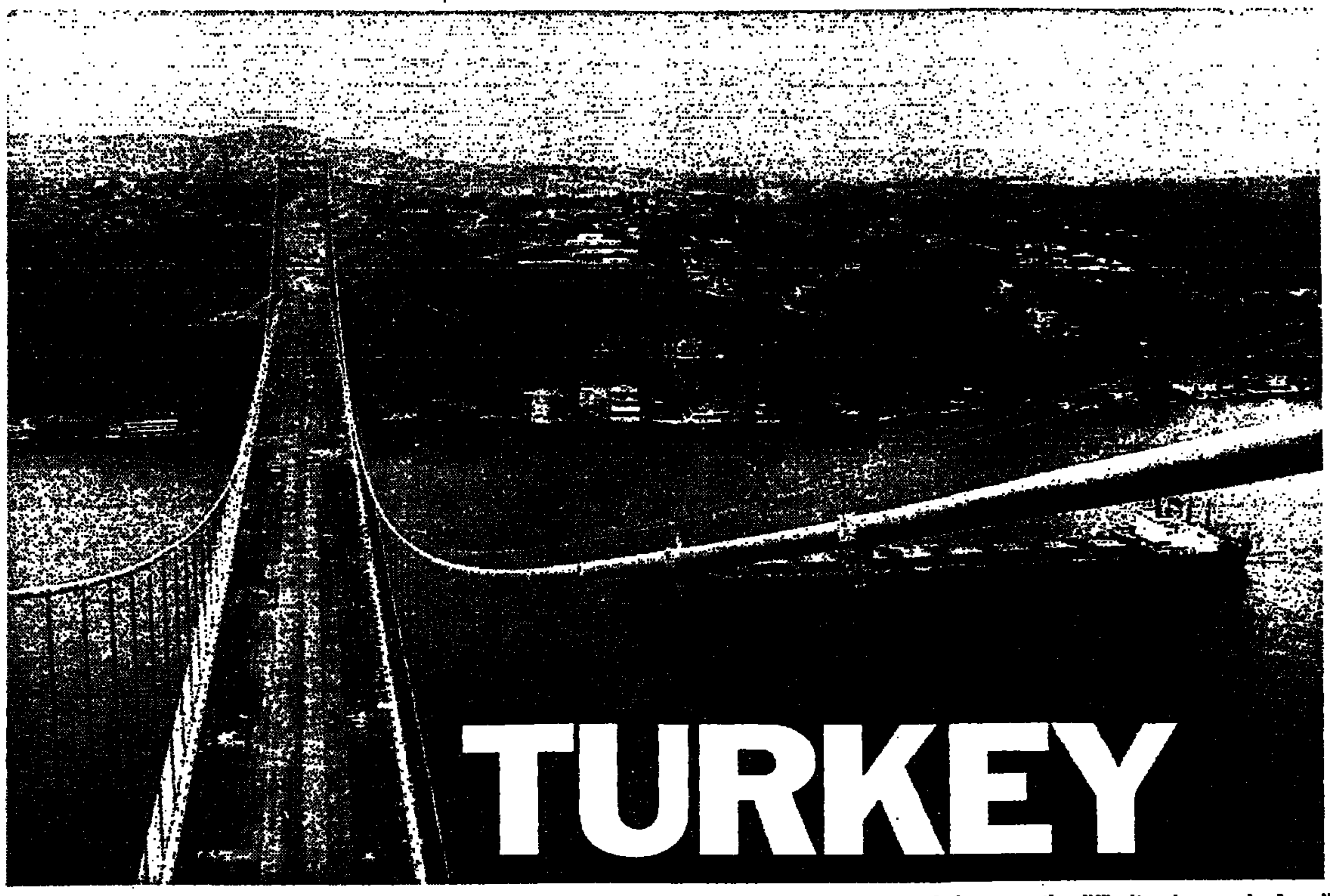
LONDON MONEY RATES

GRANVILLE SPONSORED SECURITIES

SECTION III

FINANCIAL TIMES SURVEY

Stronger exports are mitigating the country's heavy debt, while the Ozal government tries to curb growth to bring the economy back on course. It faces its most testing period, beset by widespread dissatisfaction with rising prices. **Jim Bodgener** reports.



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Picture: The newly-completed second Bosporus Bridge, which carries its first traffic next Sunday, is a graceful testimony to Turkey's pivotal role between Europe and the Middle East. A third bridge is to be built.

Pictures by Terry Kirk

Fight against inflation

THE RETURN of democracy has made substantial if erratic progress in Turkey since the return to civilian government in 1983 after three years of rigid military rule.

Although many restrictions remain, opposition politicians and the press consistently probe the regime's tolerance, and the military have confined themselves to barracks.

The Government's most serious challenge is to *bring back* on course an economy bloated through relaxed economic controls and overspending in an election year in 1987. This year's legacy has been soaring inflation of about 70-75 per cent, and a rising tide of labour and business protest.

To some extent, this has been offset by the continuing remarkable performance of exports, which on conservative estimates are expect to rise by 28 per cent this year to total US$12.3bn. The current account deficit narrowed by 35 per cent in 1987 to total $987m, and is expected to fall further to $825m this year, another hedged estimate.

Although the Government faces an exceptional debt servicing burden totalling $7.2bn this year, it seems likely it will be able to muddle through with some judicious assistance from the World Bank and other sympathetic foreign donors.

But rising export sales and successful export sales are little consolation for low-paid bureaucrats or state industrial workers struggling to make ends meet. There are fears that popular frustration with declining living standards will co-mingle with extremism on the left and right to foment a rash of terrorism, prompting yet another military intervention.

It would be another of the seemingly inexorable, ten-year cycles of boom, bust and martial law since 1960.

However, although a recent opinion poll indicates a third of the population fears for another coup, most observers think the military are not preparing to step in again – despite an unfortunate statement recently by President Kenan Evren that they would have to if the situation worsened sufficiently.

The Government says inflation will start to come down during the summer, slowed by the bumper harvest and lower food prices predicted by agronomists. Independent analysts agree, although not expecting as fast a rate of decline. There is a consensus, however, that the Government needs a real improvement by the autumn to defuse serious popular protest which could lead to isolated outbreaks of violent unrest.

The mood of the electorate has changed very quickly from the general elections last November which returned Prime Minister Mr Turgut Ozal and his Motherland Party (ANAP) for a second term.

The Government's apparent failure to deal with inflation is fast alienating ANAP's moderate conservative support from what Mr Ozal has characterised as the "central pillar" of society, particularly lower echelon bureaucrats and waged workers.

One danger is that dwindling salaries and pay packets may force their earners to depend so much on moonlighting that the state's efficiency is seriously impaired, a common experience in other developing countries.

Polls show the main opposition Social Democrat Populist Party (SHP) and on the right, the True Path Party (TPP) of former premier Mr Suleyman Demirel, fast making ground on ANAP. The Government with its comfortable parliamentary majority can afford to discount this in the short-term, but there have been ominous grumblings from ANAP deputies with hard-hit constituencies.

This back-bench criticism has pointed out the fundamental question of leadership in ANAP, still very much built around Mr Ozal. There still seems to be no adequate successor to hold together what is still a party of disparate interest groups, as amply demonstrated recently by a conflict between the party's liberal and Islamic fundamentalist wings.

In many respects, ANAP is a reflection of the fluctuating currents of modernism, tradition and religiosity in Turkish society.

There is much truth in opposition claims that ANAP has presided over a more unequal shift in income distribution in favour of an emergent group of large trading houses, businessmen and bankers profiting most from the export drive which has so successfully bouyed up the balance of payments.

At the same time, equally well-founded are ANAP charges that the hostile popular press is the mouthpiece of old industrial holdings whose privileged position under the pre-1980, closed, command and quota regime is being whittled away. And there is strong evidence that for all the Government's technocratic outlook, the upper echelons of some ministries are strongly permeated by Islamic fundamentalism.

Perhaps the greatest imponderable in the economy is how trustworthy are the macro statistics, which might seem to paint a poverty-stricken picture of the bulk of the population.

Per capita GNP was still only $1,254 in 1987, despite increasing by 11 per cent compared with the previous year, according to the State Institute of Statistics. Yet outside the pale of official figures, a teeming informal economy, particularly in the *gecekondu* (meaning, built at night) squatter barrios of the cities, could add considerably to national output if ever measured.

Turkey is rapidly urbanising - the towns and cities are growing at rates of up to 6 per cent annually, compared with national growth rates of around 2.2 per cent in a population presently numbering about 54m. This growth has created tremendous pressure on inadequate municipal services, and a creaking system of municipal finances, and more dangerously in the long term, on the education system.

One of the successes of Prime Minister Turgut Ozal's first administration has been the long-overdue and ambitious programmes of infrastructure construction it set in train - though budget stringency now means few new projects will be started until 1990 at least.

In Italy, a far more industrialised country, recent estimates suggest national income would be increased by 18 per cent were the black economy to be taken into account.

In Turkey, say academics, its inclusion could push up GNP by as much as 20-25 per cent. Estimates of total illiquid gold savings, much of it under *gececondu* beds, range as high as $45bn, for example.

The fact that agriculture still dominates the economy to a large extent, despite its relative stagnation compared to industrial growth since 1980, compounds the difficulty, since much of small farmers' produce goes unrecorded in national output totals. Though some might go hungry, few starve in Turkey.

So far, there has been very little academic research into the size of Turkey's informal sector. In fact, since 1983, the per capita GNP figures don't seem to have tallied with outward signs of popular affluence, say economists. Sales of televisions and white goods, for example, reached record levels last year on the strength of consumer demand created by the government-sponsored mass housing programme.

But now there are indications that the Government's austerity measures earlier in the year have served to curb the consumer explosion which began in 1986. Demand for locally- manufactured cars – which once had six-month delivery time lags – has slackened, while real estate prices have started to sag.

In the construction sector, unpaid bills are mounting for materials. Private sector industrialists manufacturing for the domestic market had predicated their investment plans on continued high growth in 1988. Now they are cutting back on output, running down stocks, and seeking higher liquidity profiles in the expectation that demand will contract much further before the year is out.

One fear is the economy will be reined in too fast, and that the boom will slide too quickly into bust.

To their credit nevertheless, the Ozal governments have managed to sustain economic high growth at a time of exceptionally severe external debt servicing - with all the attendant stress symptoms - without a more draconian political regime.

In Mr Ozal's first term, the populace initially was cowed by three harsh years of military rule, and agonised memories of the social and economic chaos at the end of the 1970s.

As political debate revives and gains in strength and vitality, the great test for the second Ozal government will be whether popular democratic and economic aspirations can be met without resorting to authoritarianism and repression on the one hand, or profligacy on the other.

Politics: the economy is ANAP's gravest problem

Clouds follow victory

FOR A party which only six months ago swept back to power in a general election with a cool 292 out of 450 parliamentary seats, the Motherland party of Prime Minister Turgut Ozal had a rough passage in the early months of 1988.

A wave of public frustration over the ravages of an annual inflation rate of some 70 per cent ate into its support, to a point where, by late April, opinion polls showed the party (in Turkish, Anavatan Partisi or ANAP) sliding to third place behind, respectively, the Social Democratic Populist Party (Sosyaldemocrat Halkci Parti, or SHP) and the True Path Party (Dogru Yol Partisi, or DYP). ANAP had never been in such a lowly position in its five years of existence.

At the same time – and possibly prompted by internal worries about public disaffection with ANAP – long established divisions within the party flared into the open, attracting much speculation about its long-term stability.

From without came a sustained and almost unanimous tirade from the influential local press; and there was another, perhaps more disturbing, challenge to its authority. Following a burst of street protests by students and leftists over May Day, mainly in Istanbul, President Kenan Evren, leader of the 1980 military coup, issued what was widely interpreted as a warning of the military's preparedness to step in once more if political unrest got out of hand. It was left to Mr Ozal to play down the president's intentions, and issue soothing statements about the stability of Turkey's democracy.

Of these worrying developments, the most threatening to ANAP is almost certainly the economy. The party was founded and came to power in 1983, as the first post-coup government, on Mr Ozal's promise to build a new, open economic order in Turkey, which would provide the long-term prosperity upon which to build political stability.

His appeal to all strands of Turkish society to unite behind his liberal, market-based policies struck a resonant chord in a nation weary of violent divisions and economic crisis. The progress he made in his first term was sufficient to win ANAP the biggest share of the vote – 36 per cent – in last November's elections (a free contest, unlike the strictly controlled election of 1983).

Even then, however, Mr Ozal's failure to fulfil his oft-stated determination to conquer inflation provided his opponents with ready fire. By this spring, when a raft of price rises postponed before the election were introduced, ANAP was beginning to look distinctly vulnerable.

Restoring the party's ascendancy, which in any case was distorted in the November poll by election laws giving extra seats to the biggest vote-winner, will depend on the Government's ability to get on top of inflation and show a genuine improvement in the lot of hard-pressed wage-earners.

The other major question-mark over ANAP's future concerns its internal make-up. Looming largest is the party's General Secretary, Mehmet Kececiler, an Islamic hardliner who has forged a pact between the right-wing fundamentalist and nationalist wings of ANAP in a bid to dominate the party.

Dubbed by the local press "The Unholy Alliance", this force has gone on the offensive against the liberal and more social democratic-inclined wings of ANAP, which include many close associates of Mr Ozal. Mr Kececiler, a former mayor of the deeply conservative central city of Konya and prominent member of a now-banned pre-coup Islamic fundamentalist party, would be in the cabinet but for the objections to him of President Evren and the military. He is widely credited with wanting to mould ANAP into an explicitly Islamic party.

So far, Mr Ozal – himself a former member of the same Islamic party, the National Salvation Party – has skilfully

Restoring the party's ascendancy means coping with inflation

avoided being identified with any one faction, and has retained sufficient authority to overcome such divisions. He is likely to do so again at ANAP's annual conference in June. Were his grip to slacken, however, perhaps through ill-health, the party might well enter a period of debilitating infighting, particularly as there is no clear successor to Mr Ozal waiting in the wings.

Such an outcome would fit the designs of the True Path Party, or DYP, very well indeed. Led by former Prime Minister Suleyman Demirel, it is also to the right of centre, and is a close shadow of the Justice Party, the main conservative party before the coup. With 59 seats in parliament, it is the third force at the moment, but its leaders believe it will step into the forefront if – or when – ANAP declines.

This presumption is based on the belief, drawn from political trends over the past few decades, that the mainstream right commands in total about 55-60 per cent of the popular vote, compared with 30-35 per cent for mainstream socialists and 10 per cent for the rest, who are mainly made up of small extreme nationalist and Islamic parties.

The DYP, whose leaders bitterly resent what they regard as Mr Ozal's usurpation of power, therefore relies heavily on the magnetic political skills of Mr Demirel and his denunciation of ANAP for its attraction. On the face of it, the DYP's policies do not differ radically from the Government's, but the party espouses more subsidies for domestic producers and is instinctively more *etatist* than ANAP. In difficult times, it might be able to woo some parliamentary deputies away from ANAP.

But dependence on the pull of Mr Demirel may well not be enough to ensure the party's success. For all his eloquence, the DYP tends to look more like a one-man show than ANAP.

That leaves the Social Democratic Populist Party, the SHP, (it has 106 seats in parliament) as the main opposition force bidding to present itself as the genuine alternative to Mr Ozal. It was created by a merger of the Social Democrat and Populist parties which had emerged after the return to democracy. It, too, has its factions, particularly as it includes a sizeable number of old members of the Republican People's Party (RPP), the main leftist party banned after the coup.

Its leader, for the time being at least, is Erdal Inonu, an academic ill at ease in the hurly burly of politics. In a move reflecting his frustration with the party's divisions, he announced his resignation in March, only to retract within 24 hours as the party faced disarray. How long he will continue now is unclear. If he goes, the chief candidate to succeed him is Deniz Baykal, a former RPP finance minister, who has rebuilt his career after being banned from politics for a spell in 1980.

Turker Alkan, international secretary of the SHP, is frank about the party's difficulties: "Our main problem is to shape up and end the internal struggles. We have to put up a united front against ANAP, to present the image of a party with the programme and political will to challenge Mr Ozal."

In any new election, the SHP will almost certainly at least benefit from the decline of the Democratic Left Party set up by former RPP prime minister Bulent Ecevit. It failed to gain any seats last November and has since lost its way, but its 8 per cent support would be of great benefit to the SHP.

If the SHP can win over those votes, and if inflation-harassed voters become disillusioned with Mr Ozal's liberal economics, then it is probably the likeliest alternative government. Mr Alkan says it does not, however, envisage a complete reversal of ANAP's policies. "We are not against the market economy," he says. "The fully protected state economy had its price in the end. We accept that. But Mr Ozal has gone too far in one direction. We will make some adjustments in policy, especially to ensure social justice."

Such talk of an SHP government remains highly speculative. The fact is, Mr Ozal has time on his side in which to straighten out the economy. Although local elections due within the year could prove very difficult for ANAP, the Government is at the start of a five-year term with a solid parliamentary majority.

A more pertinent question may be how long Mr Ozal himself, who had a triple-bypass heart operation last year, hopes to stay in office. He is said to be attracted by succeeding Mr Evren as President when the latter's term ends in November 1989, but probably only if he could secure constitutional changes to give the post a more executive role. That would require a two-thirds majority in parliament, which Mr Ozal does not quite have. His heirs-aspirant in ANAP will have to keep guessing.

Hugh Carnegy

Interview: Turgut Ozal

'We'll halve inflation'

THE PRIME Minister, Mr Turgut Ozal, faces a number of challenges, both in maintaining tough political policies, and in tandem, handling the problems thrown up by inflation. He answers questions put by JIM BODGENER.

Q: Most observers would agree that the main problem facing the economy is inflation. Can you say whether there is any hope of a substantial reduction by the end of the year, and broadly how would you hope to achieve this?

MR OZAL: The biggest increase last year of the monthly inflation rate was in December. The increase afterwards was less than December but also substantial. For the months of January, February, March and probably April, these figures are bigger figures than normal.

We will probably reach the highest annualised figure at the end of April. Then slowly it will come down – the biggest drop will be in December 1988. By the end of April 1989, probably we will have halved the rate of a year previously.

Q: So we're looking at something around 35-40 per cent?

Maybe 35 per cent, maybe less. The problem of inflation in Turkey is not a new one, it has been almost continuous since 1971. The worst was at the end of 1970s, but then inflation was coupled with other problems, shortages, very big balance of payments problems, and also negative GNP growth.

Today it is not like that, the balance of payments is better than last year, and exports in the first three months of this year increased by 40 per cent.

Growth was very good over the last two years, 8 and 7.4 per cent for 1986 and 1987 respectively. This year although we plan for 5 per cent, it looks like it may be higher – electric power consumption indicates that. There are no shortages in the country; many things are much better now. Therefore basically inflation compared to the end of the 1970s is a different kind of inflation.

Q: Prime Minister, according to opinion polls, support is waning for the Motherland Party, particularly in what you call the centre right "central pillar" of society, the broad silent majority that ANAP has tapped.

I think I'll answer that in two ways: first of all, I am not very sure about opinion polls in Turkey, especially when they're carried out in a hurry, they are not very scientific.

Second, let's assume they are correct, with some margin of error – but the poll shows a cross-section of people at that time, it's not voting. When people vote, not only do they have feelings, but they are also going to vote for the future of the country.

In many cases I found polling and voting were different. In Turkey, for example, the polls very much underestimated us in the 1984 election campaign and the referendum campaign last year, but it turned out to be the other way, we were the big winner of those campaigns.

When the general elections came, they started to make a bigger estimates. An estimate in Milliyet (an Istanbul daily), I remember, they were talking about something like 50 per cent of the vote, but it turned out we got 36 per cent.

Another point I want to make is that this is the beginning of a new government term. I have to take hard measures, whatever the outcome is. People will not be happy at the beginning, that's true, but when they see in about one year's time, or when they see some of the better results, they will appreciate the change. And it is the duty of the government to take hard measures at the beginning, not at the end.

Q: The recent May Day disturbances have been described as the worst since 1980. Do these indicate a worrying trend in unrest? (Note: May Day is traditionally a day for left-wing protest in Istanbul's central Taksim Square, especially since 36 died from being crushed or police gunfire at a mass rally in the square in 1977).

No, I don't think so, because the (total) number of people who went there is not more than 200. The same people were there who were the leaders of the 1977 incident in Taksim Square. The leader of DISC in 1977 (a far-left trades union confederation banned after the 1980 military coup), Mr Basturk, was at that meeting.

Also, the same extreme group of the present Social Democrat Populist Party (SHP - formed since the 1980 coup) was at that incident, but they could not get the same big crowd as in 1977. Turkey has passed that experience.

Today, the two old pre-1980 parties, one of which is one was Justice Party, other was the Republican People's Party (RPP), have been replaced by the SHP and the True Path Party (TPP), but they are still parties according to the last election. They are trying to bring back pre-1980 conditions, but that will never happen in Turkey, because people have seen this very bitter experience.

When you look at the *gecekondu* (built at night) slum houses around the cities, there has been a very good improvement in the past six to seven years, especially during my government's time.

We have given land certificates to those people, they own land and now their buildings, their streets are clean, they now have playgrounds for children, sports installations for the young, and therefore they vote for us, not for the left.

Q: When I talk about the central pillar of society, I mean the lower paid white collar workers and industrial workers who have fixed salaries, and who have no means of supplementing those incomes.

Let me tell you, those are not fixed salaries. According to agreements with the labour unions, they have pay increases every six months, also government employees have pay increases every six months.

Probably in July, we will have new increases for the government employees which will take care of some of their problems from inflation.

Q: Many of Turkey's foreign creditors are concerned about the increase in the external debt burden, and the heavy debt servicing burden in 1988.

I think this year we are going to pay more than last year, and with no problem, everything is in line. Our current account deficit is coming down, it may be less than last year – if exports increase by 40 per cent, which is higher than our original estimate, in the first three months this year it was 40 per cent, then probably the current account could be zero.

Invisibles, like tourism and workers' remittances, are all very good, and Turkey now has much better total foreign exchange earnings.

In 1980, we had $16bn of debt, but our total foreign exchange earnings were around $500m. Last year, our total debt was $38bn, and our total foreign exchange earnings last year were $17.5bn. It's a three-to-one ratio compared with a two-to-one ratio.

Q: The breakdown of the EC-Turkey Association Council meeting on April 25 has led many to question the durability of the accord reached by yourself with Andreas Papandreou of Greece in Davos in January. Is the Davos spirit still alive?

Still alive, yes. I am going to Athens in June. What happened in Luxembourg was some kind of accident on the road. We will continue to press on. But we have not solved any of our problems with Greece in Davos; we laid down the infrastructure which makes it easier to improve our relations, so that in time we will have a chance to solve the difficult problems.

Q: Is there any likelihood that Turkey will agree to withdraw some of the Turkish troops in northern Cyprus if Greece moderates its opposition in the EC?

I am not ready to talk about this subject yet. We have not talked, and I don't think what we can do anything about it for the time being, because there is a proposal on the table from the UN secretary-general that the two communities should come together, and start meaningful negotiations. Certainly if an agreement is reached, then according to that agreement, Turkish troops will be withdrawn from the island.

Q: How is the full application from Turkey to the Community progressing?

The European Commission continues with the studies. I don't know how long it will take, but that is the stage right now.

Q: What would you say was the probable timescale for entry?

I have no time estimate, and I don't think it advisable to make one.

Q: How do you sense the feeling within the EC itself about the application – is it favourable?

I think time will tell us, especially when the European Commission report comes out. I know one thing, our economic situation – excepting inflation – and the competition of Turkish industry, is good compared with other newcomers to the Community.

Q: Recent events in the Gulf, particularly clashes between US and Iranian forces, have been alarming. What effect have these had on Turkey's policy of "active neutrality" in the region?

I think it has not changed our "active neutrality" position between Iran and Iraq because I feel that eventually, if the war stops, maybe the two countries will require some kind of good offices of Turkey in the future.

Islam

Hope for a free voice

SEVERAL HUNDRED thousand dervishes may be among the unlikely beneficiaries of Turkey's application to become a full member of the European Community. For the Government has privately accepted that Article 163 of the Turkish Penal Code will have to be scrapped (along with Articles banning Marxist activity) before Turkey can join Europe.

When (or perhaps it is still if) Article 163 goes, it will become legal to press for Turkey to become a full Islamic state, something which at present carries a jail sentence of up to seven years. It will also mean that the Tarikats (underground dervish brotherhoods) will be allowed to resume a public existence after an interval of more than 60 years.

The Tarikats, along with most of the traditional religious establishment, were swept away by the founder of the Turkish Republic, Kemal Ataturk, in 1925. Ataturk introduced a secular form of government, and for 15 years until after his death, there was virtually no legal religious education in Turkey. His reforms were aimed at making Turkish society look as much like Western Europe as possible, and ending the intense social pressures on individuals to conform to religious practices.

Since 1938, however, the tide has been flowing away from secularism in Turkey. Religious education is now compulsory in all schools. Most ministries have mosques in their basements. During the Holy Month of Ramazan, when fasting is obligatory for pious Moslems, canteens in official buildings tend to be closed for repairs and restaurants in provincial towns stay shut during the day.

Local officials in some remote communities impose sanctions on those who break the fast. Last year, the mayor of a small town in Konya province fined a citizen who smoked in Ramazan, while in Van, a teahouse patronised by students was attacked, and one person was killed, for not observing the fast.

More fundamentally, certain Islamic customs are still universally observed in Turkey, including circumcision (usually between the ages of 5 and 11) and Islamic burial. Cremation is not permitted, despite the obvious population pressures of the large cities.

Much of the Turkish press, even those sections which regard themselves as moderately "secularist", is preoccupied with religious loyalties in a way which has little parallel in the rest of Europe today. Missionary activity, Christian propaganda, and above all conversions to Christianity rate angry headlines. Periodic conversions of foreigners to Islam are greeted with jubilation, and often with photographs of the new convert, submitting to the circumciser's knife.

This degree of traditionalism is not surprising, given that Turkey has only begun to industrialise and become an urban society in the last quarter century. What most Turks are more concerned about is how a religion, which sets out detailed instructions for almost every aspect of life, can be prevented from spilling over into politics and trying to take charge of the political system.

The military, sections of the middle class, and intellectuals line up against the idea of allowing society to be directed by the clergy and the Islamic brotherhoods. The military are the key element in this alliance. A military veto prevented the powerful and highly capable deputy chairman of the Motherland Party, Mr Mehmet Kececiler, from becoming a minister after the 1987 general elections. Mr Kececiler's strong Islamic revivalist loyalties made him anathema.

Obviously a veto of this kind is hard to reconcile with constitutional democracy in the usual sense. The bans on the religious brotherhoods at first sight fall into a similar category.

Ataturk shut down the brotherhoods in 1925, probably in self-conscious imitation of Henry VIII's closure of the monasteries in Tudor England. There the parallel ends, however. For though the convents on which the dervish orders had been based were emptied and some fell into ruins, the associations lived on underground – and new ones were formed.

Beneath the surface, most Turkish right-of-centre politics today can still be interpreted largely in terms of the Tarikats. The largest and most traditionalist of them is the Nakshibendi order, a movement with which the family of the present prime minister is thought to have been linked over several generations. Other leading orders include the Ticanis, the Kadiris, the Mevlevis, and two 20th-century newcomers, the Suleymancis and the Nurcus, neither regarded as genuine Tarikats by the older movements.

From time to time, meetings of these bodies are raided by the police and their members carried to jail, though over the last 10 years the climate has become steadily more permissive, with the result that religious distinctions of costume, for men as well as for women, have begun to reappear in the streets.

One school of thought says that modern values, inculcated by the mass media, are now too deeply rooted for religious movements to get very far in politics, and points out that, in order to exert political influence, the Tarikats have had to copy their enemies and set up political parties.

Another viewpoint fears that the religious groups and the secularists could eventually have a violent collision. Meanwhile, however, one thing remains undeniable: each decade in recent Turkish history has ended with the religious groups gaining ground and the secularists losing it.

David Barchard

The economy is being brought back under control

Most testing year

THE GOVERNMENT faces perhaps its most testing year since the ruling Motherland Party (ANAP) first took office in 1983, pledged to implement a liberal structural adjustment programme.

However, there are encouraging indications that the economy is being brought back under control, after taking a grave turn for the worse in 1986.

Excess in an election year in 1987 had resulted in overspending, heavy borrowing both at home and abroad to finance deficits, a bloated money supply, and a real deficit over twice that budgeted. For Turkey's already hard-pressed populace, this meant a soaring year-end inflation rate of 65 per cent.

The Government moved belatedly in February to bring the economy back on course, first with an emergency package to halt the run on the lira in foreign exchange markets, and then with a budget and economic programme for 1988 aimed at dampening growth and halving inflation.

The latter target most commentators view as over-optimistic – around 50 per cent is the most that can be hoped for – but there is some evidence, unlike recent years, that the government is holding fast to a policy commitment of spending cuts.

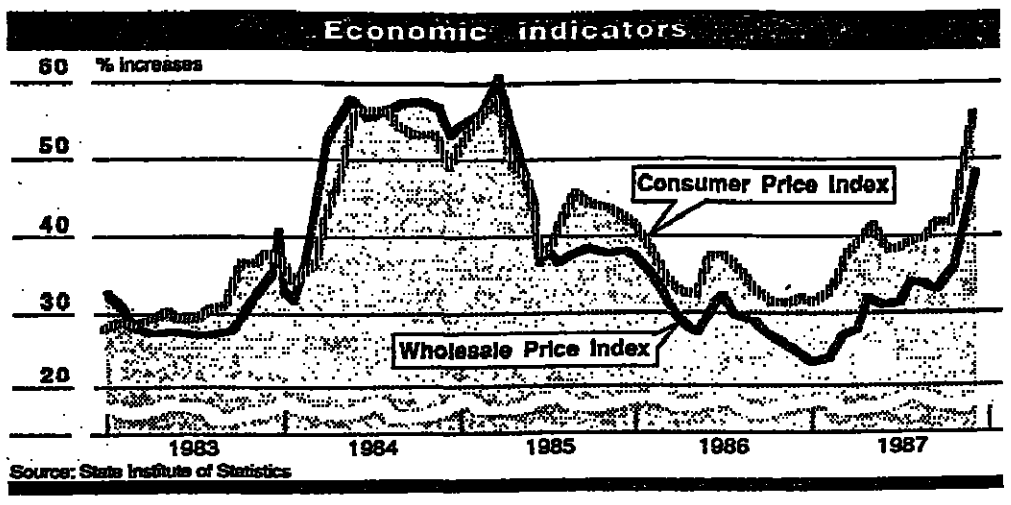
This resolve comes from a triumvirate in the bureaucracy, the monetarist central bank governor Mr Rusdu Saracoglu, his predecessor, treasury head Mr Yavuz Canevi, and Mr Ali Tigrel, director of the State Planning Organisation (SPO).

For the present they hold the upper hand in a policymaking tussle with politicians in the recently-formed Higher Planning Council who maintain that Turkey can withstand the strain imposed by high growth at a time of exceptionally heavy external debt servicing.

The over-indulgence in 1987 resulted in a high growth rate of 7.4 per cent, indicating that despite expectations to the contrary, the domestic demand explosion of 1986 abated little and the economy was still overheating. Third quarter figures had induced false hopes of a slackening to 6.8 per cent, but a surge in imports during the last quarter dashed these expectations.

Compared with 5.5 per cent of GNP a year previously, the public sector borrowing requirement increased to 8 per cent, while over the period, compared with a target of 4.1 per cent, the budget deficit in fact rose to 8.7 per cent.

This year's budget appears to be an attempt to rein in growth while at the same time shouldering the carry-over from 1987. Growth will be reduced to 5 per cent, and the budget deficit will be held down to TL2.6 trillion.

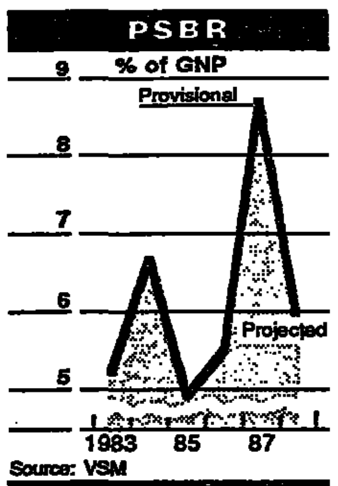


Source: State Institute of Statistics

However, the forecast 65 per cent escalation in expenditure and the 75 per cent increase in revenues from indirect taxation – compared with 55 per cent from direct taxes – has aroused scepticism among business economists as to whether inflation can be halved so ambitiously. Again, the projected growth rate of 5 per cent would mean a GNP deflator of 49 per cent, hardly compatible with the inflation target.

Partly to blame for the inflation rate – now around 70 per cent – were overdue price increases that the Government has pushed through regularly since the elections. These, especially for fuel, have aroused bitter protest, and have certainly lost the Government valuable electoral support.

In the domestic economy, the prescriptions appear to be working, in the short term at least, although inflation is still on the rise. The actual budget deficit in the first three months of the year worked out at around TL347m, well below target, although the major payments to farming co-operatives and bureaucrats still have to be faced later in the year, while wage disputes are rippling through the public industrial sector.



Source: VSM

Management in commerce and industry is complaining about the squeeze, too. Part of the remedial package early in February for the lira was a hike in one-year deposit rates – the longest term permitted in domestic currency – to 65 per cent.

Officials maintain this is only a temporary expedient, to be reduced as inflation subsides, but companies starved of working capital, let alone investment funds, fear the high rates will remain in place for much longer. Some businessmen are already forced to pay more than 100 per cent for their borrowing needs.

It is only a lack of investment funds that is holding back industry. Growth is industry-led and demand from both the domestic and export markets remains high; capacity, especially in the export sector, is strained to the limits. The World Bank, for example, recently approved a $300m loan towards new private sector industrial investment and diversification, particularly in the export-oriented sector.

Business organisations once broadly sympathetic to the Government have grown noticeably more critical. The Turkish Industrialists and Businessmen's Association (TUSIAD), representing big business, recently brought out a report slating the Government for overdominating the economy, while the Istanbul Chamber of Commerce (ICCI) has predicted that 1988 will be the worst for price increases since 1980.

The widening budget deficit is largely caused by the heavy domestic and external debt servicing, exacerbated in 1987. In the 1988 budget, this legacy is reflected in transfers totalling almost half total expenditures, while interest payments on external and internal public debts are forecast to rise by 53 per cent.

External debt servicing in 1988 – a peak year for repayments of debts rescheduled in the late 1970s and early 1980s – will total $7.2bn. In 1987, the external debt burden increased by 22 per cent to total $38.3 bn.

The Government's one success story is the current account, to which it has geared a medium term debt-servicing strategy recently presented to its major foreign creditors. In 1987 compared with the previous year, the current account narrowed by 35.4 per cent to total $987m, on the back of a surge in exports by 36 per cent to $10.2bn. In 1988, they are conservatively targeted to increase by 23 per cent to $12.3bn.

Tourism is one of the brightest growth sectors in the economy, but still yet has to come into its prime on a par with other Mediterranean sun-spots. Nevertheless, there was a healthy increase in receipts of 33 per cent for 1987. Workers' remittances also continued their slow climb from a mid-80s depression, rising by 24 per cent over the period.

There is every reason to believe that the export success will continue this year – exports in the first quarter rose by 40.9 per cent to total $2.8bn compared with January-March 1987, while the rate of increase of imports was much slower at 23 per cent, to total $3.49bn.

The medium-term strategy envisages that inflation will fall to under 20 per cent and that the current account will narrow to $473m by the end of 1991. Debt servicing will remain roughly constant at this year's level, but the rate of increase in the debt stock will slow as borrowing requirements fall with the current account deficit.

By the end of the period, the debt stock will total $41bn. Growth will be kept at around 5 per cent annually throughout the period.

Some of these targets might appear over-optimistic,but there is no denying the continuing improvement in the current account deficit. On this basis, the Ozal government could still achieve its basic aims despite two very tricky years ahead.

Jim Bodgener

Growth rate: GNP

%		
1985	:	5.1
1986	:	8.0
1987	:	7.4
1988	:	5.0 projected

Main social indicators

	1983	1985	1987
Total population	48.2m	50.7m	52.1m
Population increase rate %	2.16	2.16	2.12
Dependency rate (000s)	716	687	669
Infant death rate (000s)	83	83	65
GNP per capita (1986 prices) $	1017	1077	1183
Employment by sector			
Agriculture %	60.67	58.86	56.54*
Industry %	12.27	12.86	13.79
Services %	27.06	28.28	29.67

* August 1987

Profile: Ali Tigrel

Pushing cuts through

A START AS a research engineer in the state petrochemical industry to becoming head of the State Planning Organisation (SPO) might seem to imply a varied passage through life.

But the recently-appointed head of the SPO, Mr Ali Tigrel, was recruited there from the industry only four years ago, and has risen fairly rapidly to steer the Government's central planning unit through a sticky economic patch over the next two years.

He is part of a triumvirate in the bureacracy which is determined to prevail against political demands for continued high growth despite Turkey's current economic difficulties. The triumvirate is currently in the ascendant in economic policymaking; it also includes central bank governor Mr Rusdu Saracoglu and treasury chief Mr Yavuz Canevi.

Mr Tigrel, 42, is a man used to learning quickly from experience, and possesses the kind of precise and logical mind required to push through the spending cuts required in once-ambitious development programmes.

Like many other senior bureaucrats – and his immediate senior, State Minister for the Economy, Mr Yusuf Bozkurt Ozal, the president's brother – Mr Ali Tigrel was educated in the UK, as a result of his father being financial counsellor to the London embassy.

He has the notable distinction of being the first pupil from Holland Park School to gain a place at Imperial College, London University – not the first by any means in his string of academic achievements, particularly in maths and physics.

Once he had joined the SPO, Mr Tigrel moved fairly quickly through its ranks, starting off with project analysis, then moving to direct economic planning, and then to his present post when it was vacated by Yusuf Bozkurt Ozal, who successfully contested the November general elections to become State Minister for the Economy.

Along the way, Mr Tigrel acquired his grasp of macro-economics, grounded in experience rather than academic theorising.

He admits that Turkey faces a tough year in 1988. Inflation will be the main hurdle – and that will entail strict fiscal control. It has meant quite severe cutbacks in public expenditure, particularly for infrastructural development.


Ali Tigrel: moved quickly through the ranks

"We haven't really approved any new projects recently," Mr Tigrel says. On major ventures such as Istanbul municipality's ambitious transport projects, including the third Bosporus bridge, Mr Tigrel says: "My argument is that do we have to hurry so much at a time when we have to pull the purse strings together? At a time when people are sensitive about the foreign debt statistics, would it not be appropriate to delay some of these projects for at least a few months?"

Project borrowing purely to source the foreign exchange allocated towards local costs – which the Government can use for balance of payments needs, funding local costs in domestic currency – should be discouraged, Mr Tigrel says. "We need more untied financing. We already have enough projects in the economic programme, and I don't think there is enough capacity in the economy to finance everything."

He even has reservations about the Government's increasing dependence on "build-operate-transfer" (BOT) projects. He points out that although these in theory absolve the Government from direct responsibility for debt servicing, they still take up room in the international markets for Turkish risk.

However, Mr Tigrel may run up against opposition on this score within the SPO itself. It seems unlikely that plans to let at least one large BOT contract for a thermal power station burning imported coal can be reined in this year.

Negotiations are too advanced, and have been going on too long, says another senior SPO official.

Turkey has pioneered the novel contracting method, he points out, and adds: "All the world is talking about the Turkish BOT schemes - we cannot postpone them now."

Jim Bodgener

Turkey's foreign relations are now high profile

Ozal sets the pace

MR TURGUT OZAL is a man in a hurry. For a leader best-known for his radical transformation of the economy, he has taken with surprising gusto to foreign affairs, giving Turkey its most active profile abroad for many decades.

In little over a year he has made a formal application to join the European Community; moved as swiftly as is practicable to reach a rapprochement with Greece; ended a nagging dispute with the US over military aid; laid the basis for a considerable expansion of trade with the Soviet Union; tried to arrive at some kind of limited understanding with another traditional enemy, Syria; and attempted to patch up relations with Bulgaria, where a large Turkish community has suffered much persecution.

His policy of active neutrality towards Iran and Iraq has successfully prevented the eight-year-long war from spilling over the borders into Turkey itself, and he has developed a useful working relationship with both the belligerents which one day could place Turkey in a unique position to act as a peacemaker.

Few of these moves appear to be a marked departure from the traditional foreign policy approach of the Republic as expressed by Kemal Ataturk's dictum, "Peace at home, peace in the world." Yet Mr Ozal has added a fresh economic dimension to many of the key foreign policy issues.

His transformation of an inward-looking economy into one that faces firmly overseas has given the nation and its leaders a new confidence. And Mr Ozal believes that with difficult neighbours like Syria, Iran, Iraq, the Soviet Union and Greece, the development of closer economic ties will not only benefit Turkey's own economy, but help to overcome, or at least mitigate, some of the political problems.

Mr Ozal's most ambitious initiative yet, however, seems to ignore his own favoured method of a step-by-step approach. In April last year he made a formal application to join the EC with the apparent encouragement of the US, but against the advice of at least two of the Community's senior members. The move has placed Europe in a dilemma, and may backfire against the Prime Minister himself.

The chances of Turkey joining the EC in Mr Ozal's lifetime seem small. Turkey has few high cards to play against a Community clearly reluctant to accept Turkey in the short to mid-term. The EC has yet to get its own political, military and economic act together and for some time to come faces the difficult task of absorbing Spain, Portugal and Greece.

Turkey plays a vital role in the defence of Western Europe. With Nato's second largest army, it defends one third of the alliance's land and sea borders with the Warsaw pact, but no one believes that Turkey could or would go elsewhere if Europe said "No". Ankara fully realises that the best guarantee of its security will never be an unstable coalition of weak Middle Eastern countries, but a continuation of its mutually beneficial alliance with the West.

A persistent Mr Ozal deserves full marks however for his

The EC move has placed Europe in a dilemma

attempts at rapprochement with Greece, a move that must partly be seen as linked to his ambitions to join the EC.

A little over a year ago Turkish and Greek generals were talking of war after a flare-up over disputed waters in the Aegean. But today Greek music is playing once again in the cafes of Ankara, the two prime ministers have met twice in the last five months and in April a determined Mr Ozal brushed aside a dispute with the EC and Greece over Cyprus and said he was still planning to make his historic trip to Athens next month to meet Mr Papandreou, the Greek Prime Minister.

If it goes ahead, it will be the first visit to the Greek capital by a Turkish leader in almost a quarter of a century.

The two main problems which have bedevilled Graeco-Turkish relations for decades look intractable: Ankara's occupation of northern Cyprus, unrecognised by any nation other than Turkey, and territorial disputes over the Aegean.

But against all the odds (opposition at home, a potentially provocative but unchangeable Nato exercise timetable in the Aegean, the collapse on April 25 of the first full EC Association Council meeting since the 1980 military coup) the so-called Davos spirit is still alive and kicking.

The two leaders appear to have decided, for the moment at least, to stay well above the once "normal" daily diet of mutual recrimination and largely to skirt around the central issues of disagreement, going instead for a wide array of confidence-building measures.

In the past four months changes have come swift and fast:

- On January 31 in Davos, Switzerland, Mr Ozal and Mr Papandreou held face-to-face talks for the first time and agreed measures to reduce tension.
- On February 6 Turkey lifted its 1964 decree freezing Greek assets in Istanbul.
- On March 5 Mr Ozal and Mr Papandreou met in Brussels and agreed fresh moves to further rapprochement.
- On April 18 Mr Ozal met the Patriarch of the Greek Orthodox Church in Istanbul. Mr Demetrios, a Turkish citizen, is now allowed to travel abroad to fulfil his duties as spiritual head of the church worldwide.
- On April 20 Greece signed the EC adaptation protocol which binds it to the EC's Association agreement with Turkey.
- On May 13 Merlina Mercouri became the first Greek minister to visit Turkey since 1974.
- Tomorrow Greek and Turkish economic and political ministers meet in Ankara and Athens in committee for three days to prepare proposals and the agenda for the June summit.

In spite of the remarkable change in atmosphere the Davos spirit remains a delicate flower that could still be trampled under foot. The danger is the two leaders may yet be unsure of how far they would like to go and what concessions, if any, they are prepared to make on the key problems.

Both too are partly answerable to domestic constituencies either highly critical of the rapprochement or holding unrealistically high expectations.

Some small advance on the thorny issues of Cyprus and the Aegean at next month's summit cannot be ruled out. But it would be dangerous to expect a dramatic quick fix to problems that have plagued the two nations for decades.

Richard Cowper

Turkey - East or West?

Caught between two traditions

IT IS Ramadan in the strongly religious Kurdish heartland of South-east Anatolia, where for many the daily round of subsistence agriculture and herding of flocks goes on much as it has for the past thousand years.

Between dawn and dusk not a morsel of food nor drop of liquid may pass the lips of the Muslim faithful.

Yet downstairs in a roadside cafe, in the fast-growing town of Batman in the province of Siirt, lorry drivers dressed in smart blue overalls are sipping tea and watching a soft-porn video.

Upstairs, on a tiny platform next to the cafe washroom, a Khomeini look-alike in white turban, eyes shut, prays with a fervour worthy of the most devout religious ascetic.

Modern Turkey is a country caught between two continents, between two traditions, two cultures, two trends of history. In spite of the mighty cultural and political shove westward given to republican Turkey by its founder, Kemal Attaturk, the struggle between the two remains a battle for the heart and soul of the nation.

Western-oriented modernists (the "Kemalists") see Turkey's future as lying with a democratic, secular, essentially capitalist Europe; while more religiously oriented "nationalists" look to traditional Islamic values, the Ottoman past, and see the country as being more logically linked to the Middle East. Many are caught in between, pulled now one way now another.

Always regarded as a melting pot between East and West, yet never fully belonging to either, Turkey has for centuries been seen by most outsiders as lying at the crossroads between Asia and Europe, with the precise division being drawn at the Bosporus.

Turkey borders Iran, Iraq, Syria, Russia, Greece and Bulgaria, and is inescapably caught between the Middle East and Europe. In the strictest geographical terms however it is more part of Asia now than it was a hundred years ago.

At its height, the Ottoman empire was overlord of Greece, Albania, Bulgaria, Yugoslavia, Rumania, Hungary and parts of Czechoslovakia. But when the republic was created in 1923 Turkey was left with just one province west of the Bosporus – Thrace. Some 97 per cent of the Turkish land mass – Anatolia – lies east of the waterway and is technically in Asia.

Modernists are quick to argue that such an historically defined continental boundary is an arbitrary concept. Why shouldn't Europe end on Turkey's eastern borders with Iran, Iraq and Syria, they ask?

By implication, Lord Kinross, the well-known historian and expert on Turkey, gave some credence to such a view when he entitled one of his books on Turkey Europa Minor – a neat reversal of the traditional Asia Minor.

If, in geographical terms, Turkey is a unique mixture of East and West, with the debate yet to be settled by politics and history, the same can also be said of its attempt to become a modern democratic western state.

Turkey is struggling to shake off its image as a country where democracy is regarded as something of a luxury

Ataturk's decision to create a firm distinction between government and religion has held Turkey in good stead, but three military coups, half a dozen constitutions and 65 years after the founding of the Republic, Turkey is still struggling to catch up with Western Europe and shake off its image as a country where democracy is regarded as a luxury that cannot always be afforded.

Mr Ozal may be leading Turkey back to democracy, but he still suffers from critics who accuse him of trying to run the country like a latter-day Sultan with the help of a close circle of family and friends.

Streets ahead of its warring neighbours Iran and Iraq, and more forward-looking than the conservative princely states of the Gulf, Turkey is a relatively young nation with many of the attributes of western democracy. But the jury is still out on possible future intervention in the political process by an army which, with just a whiff of the Janizaries, considers itself to be the lawful guardian of the Kemalist Republic.

Turkey is changing fast. In the past half-decade of rapid economic growth, waves of mass immigration from the more traditional and conservative hinterland have given the country's cities a less cosmopolitan and more Eastern and Islamic feel, as well as imposing impossible strains on modern amenities. In Istanbul, a city of 7m, less than 1m of its adult population was born there.

The process of influence is two-way: city folk and television impart some modern values to incomers who flood in in their tens of thousands; while rural inhabitants turned city dwellers are prompting a growth in religious education, and spurring a large programme of new mosque building.

Others - notably the Kurds in eastern and south-eastern Anatolia, but also some inhabitants of mountain fastnesses in isolated pockets of the country - have until recently remained untouched by the modern economy or western ideas, certain in the central position of their faith, and attached to a way of life more akin to that found in tribal Afghanistan than the poorest parts of the EC.

But even in more modern western Turkey, shortly to face its biggest confrontation with Europeans since the first world war in the form of half a million British tourists, an Islamic revival has brought about a new emphasis on religion and an upsurge of interest in the country's Ottoman past.

Religious fundamentalists make up perhaps less than 10 per cent of the population, but are proving cause for concern among the country's western-oriented elite and middle classes.

Turkey will not go the way of the Ayatollah's Iran, rejecting all Western values. The path to a theocratic state is firmly blocked.

Any serious questioning of the secularist legacy handed down by Ataturk is given short, and sometimes ruthless, shrift by an army dedicated to his ideas and to his memory.

But neither is it yet clear that the country is firmly set on a path that will transform a country with a per capita income of just $1,200 a year, into a fully-fledged European nation capable of holding its own economically and politically in one of the world's richest and most democratic clubs.

Says Mr Mumtaz Soysal, a professor of constitutional history at Ankara university and a leading columnist: "Turkey is not a European society. It is not an ordinary Islamic society. It will never be possible to fundamentalise this country, and thankfully so. It is too late.

"But our whole society now is torn between two arguments: those who preach westernisation and those who are against it. On one side you have ranged the whole balance of social power: the state, the armed forces, the bureaucracy and other powerful institutions.

"Against this are ranked the Kurds, Islamic revivalism, Islam, the pull of the Middle East. It is a continuous battle – one that may never be won."

Richard Cowper

TURKEY 5

Turkey has secured the trust of both Iran and Iraq

Neutrality now should assist post-war trade

IN OCTOBER last year Turkey agreed to represent Iran's interests in Baghdad and Iraq's interests in Tehran. This extraordinary three-way agreement, said to be unique in the annals of diplomatic history, underlines Turkey's achievement in gaining the trust of both its warring neighbours.

The agreement came just a month after the two belligerents, at war for almost eight years, formally decided to end their diplomatic relations and send home the single diplomatic representative they both had in each other's capitals.

Increasingly self-confident in foreign affairs, Mr Turgut Ozal has visited Tehran and Baghdad three times each since he came to power in 1983, most recently this spring, and – backed by a policy of studious neutrality – he has established a reasonable working relationship with the leaders of both regimes.

Perhaps one of Mr Ozal's greatest ambitions is that one day he may be able to play a central role in bringing about peace between the two countries. For the moment at least he, more than anyone, is aware that the time is not yet ripe and he is content to concentrate on protecting Turkey's own very considerable interests in the area.

The continuation of the war still poses major political risks for Turkey, and the economic benefits that Ankara gained in the early years of the war may now be outweighed by the liabilities of its dragging on. But even more alarming to Ankara would be an Iranian victory, particularly if it involved the collapse of the secularist Baathist regime.

An Iranian victory would almost certainly strengthen Tehran's attempts to promote the gravitational pull of Islamic fundamentalism in Turkey – anathema to the majority in a country whose political and constitutional framework is based on secularism.

The ace up Mr Ozal's sleeve is that to continue financing and supplying the war effort both Iraq and Iran desperately need to maintain their overland trading routes and links with Turkey, and through it to the West.

But Ankara is also vulnerable. Turkey cannot afford to allow the Gulf war to spill over its borders into an area where it is already having to fight its own guerrilla insurgency, and though there has been a decline in recent years Iraq and Iran together still account for around 20 per cent of Turkey's total trade and about 70 per cent of its oil imports.

Earlier this year Iraqi aircraft pursuing enemy forces violated Turkish airspace and dropped bombs on the Turkish side of the joint frontier. A lone Iranian warplane also attempted to destroy the Habur bridge on the main highway linking Iraq and Turkey, an incident which resulted in an exchange of strongly-worded protest notes. Mr Ozal said that in future any aircraft violating Turkish airspace would be shot down.

Equally worrying for Turkey is the danger of a semi-independent Kurdish state being set up in northern Iraq. Its existence would undoubtedly exacerbate Turkey's own Kurdish insurgency in the south-east, where more than 1,000 people have lost their lives in the last four years.

Both Iran and Iraq have large Kurdish populations of their own and have traditionally been keen to keep them in check. But the exigencies of war have led Iran to back Iraqi Kurds fighting the regime of Sadam Hussein in the north of the country. Concern over their success reached a high point earlier this year when they threatened the northern Iraqi town of Suleimanye, close to the oilfields in Kirkuk.

The 1.5m b/d capacity twin pipeline from Kirkuk in Iraq to Yumurtalik, near Iskenderun in the eastern Mediterranean, supplies Turkey with about 40 per cent of its crude oil and with a surplus which is exported to Europe. It also provides a substantial proportion of the finances for Iraq's war effort and as such would appear to be a prime target for Iran or its Kurdish allies.

Mr Ozal, who at the end of February met Ayatollah Hussein Ali Montazeri, Khomeini's designated successor, and Ali Akbar Hashemi Rafsanjani, the powerful speaker of Iran's parliament, was quick to pass a stern message to Tehran that it should keep a tighter check on its Kurdish allies.

A pragmatic Iran, far more isolated than Iraq, realises it cannot afford to offend Turkey too deeply, and this may provide one clue as to why since 1980 the Kurds in Iraq have never blown up the oil pipeline.

Turkey has naturally found Baghdad more receptive on the Kurdish issue. Ankara's security forces have won the right of hot pursuit to cross its northern frontier to control Kurds in the mountainous region where the Iraqi government has no regular presence. This right has been exercised about once a year since it was granted in 1984.

Apart from these potential dangers, Turkey still gains considerable economic benefits from its geographical position, next to Iraq and Iran. In the early 1980s the belligerents were Turkey's two top trading partners, and though they have now slipped behind West Germany and are being overtaken by the US and Italy, their trade with Turkey remains significant.

International lorries trundle back and forth across Anatolia carrying raw materials, meat, fruit and vegetables and consumer goods to the Middle East while oil, carpets and other products wend their way in the opposite direction. Cross-border trade provides a stimulus for the economies of half a dozen or more towns in eastern Anatolia and jobs for thousands of Turkish lorry drivers.

Turkey's two-way trade with Iraq and Iran last year increased sharply from $2.1bn in 1986 to $3.5bn, mainly explained by a quadrupling of oil imports from Iran and a 50 per cent increase in those from Iraq.

As one might expect, payments difficulties with both countries continue to pose some thorny problems. When Mr Ozal visited Baghdad in March his most painful task was to tell President Hussein that domestic economic problems meant he would have to suspend all credits to Iraq.

Introduced in 1984, the system had allowed Iraq to borrow about $1.8bn a year for spending on Turkish goods and services. Turkish exporters shipped their products and were paid by their own central bank. Iraq is well over six months behind in its payments and is believed to have outstanding debts of about $2bn under the system. According to Mr Seyfi Tashan of the semi-official Foreign Policy Institute, Turkish exports to Iraq could fall to below $300m this year, compared with $945m in 1987.

As the war bites ever deeper into the economies of Iran and Iraq, trade with Turkey seems bound to suffer. Ankara is now looking more than ever to Europe and the rest of the OECD. Nevertheless, if Turkey can hang in, maintaining good relations with both, it could stand to make enormous gains when the war eventually comes to an end. Iran and Iraq will need a massive reconstruction programme, and Turkey's international construction industry, for one, would be in a perfect position to assist.

Richard Cowper

Mr Turgut Ozal has established a reasonable working relationship with the leaders of both regimes

Iranians in Turkey

Refugees meet both prosperity and misery

THE PRECISE number of Iranians living in Turkey today is a mystery that even the Government admits it is nowhere near to solving, but it is widely agreed the country provides a permanent or semi-permanent home for at least a million.

When Ayatollah Khomeini deposed the Shah of Iran in 1979 millions of middle-class Iranians fled to Turkey, many moving on to the West. However, there continues to be a steady flow of those wishing to escape the war, join their relatives abroad or simply to set up in business in a more lucrative environment.

The majority live in Istanbul, Anakara and Izmir, where they have taken over whole city quarters, and dotted in towns and universities all over the country there are sizeable communities of Iranians.

Around the covered bazaar in Istanbul in the areas of Aksaray and Laleli the predominant language is Farsi. Large numbers of once prosperous middle-class Iranians lead seemingly miserable lives in cheap hotels, spending $15 to $20 a day and waiting for the chance to leave for the West or hoping against all hope for a change in the regime in Iran.

Some, whose money has run out, live at the very margins of existence posing a serious social problem for a city which has a considerable unemployment problem of its own and where infrastructure and health facilities are at breaking point.

Not a few are involved in smuggling: in consumer goods, food and meat products and a fast-growing heroin trade where good connections inside Iran are vital. In the eastern Anatolian city of Van, for example, it is estimated that up to a quarter of the city's economy may be dependent on this illicit trade.

Others are reaping the benefits of Turkey's relatively open and fast-expanding economy and the close trade links which still exist with Iran. They operate successful export-import agencies, transport companies, carpet shops, cafes and other service businesses.

Turkey provides a home for not a few Iranian millionaires and there are 88 officially-recognised Iranian foreign ventures in the country. These however are just the tip of the iceberg.

Most successful Iranian businessmen prefer for political reasons to maintain a low profile and many use Turkish frontmen for their operations. A $3m tourist venture for the south west launched last year, for example, had $1m in Iranian capital behind it but no Persian name appeared in the company files.

The official Ministry of the Interior figure for the number of Iranians in the whole of Turkey *is about 800,000, of which more* than 10,000 are formally registered as students. But because there are no formal visa requirements for Iranians entering into the country and because the wild and generally mountainous 454km long boundary with Iran is impossible to guard, the number is considerably higher.

In Istanbul and elsewhere there is a thriving trade in forged papers for those who left Iran illegally and wish to disappear in Turkey's heavily-policed cities.

Not a few are involved in smuggling: consumer goods, food and meat products, and a fast-growing heroin trade where good connections inside Iran are vital

The British and American consulates in Istanbul, which handle emigration and visa applications from Iranians wishing to go West, agree that well over 1m. Iranians are currently living in Turkey, while Prof. Erol Manisali of Istanbul University and one of Turkey's leading experts on the subject, believes it could be as high as 1.5m.

The US consulate in Istanbul, which is often besieged by long queues of hopefuls reacting to the latest rumour, receives more than 18,000 visa applications a year from Iranians and in 1987 issued over 1,200 permits to remain in the US.

Political considerations too suggest a reason for the Turkish authorities underestimating the total. Relations between secularist Turkey and fundamentalist Iran are highly-sensitive.

Both sides accept the need to maintain a reasonable working relationship. But Iran makes no secret of the fact that it believes secular Turkey is a traitor to the Islamic cause and is not above providing finance and other support for religious groups within the country.

Last month, the Iranian Ambassador to Ankara was sum*moned to the Foreign Office for* taking part in a religious demonstration in the city of Konya.

A small number of pro-Shah groups engage in covert activities while Khomeini secret agents run periodic assassination missions on Turkish soil. Last year three Iranians were gunned down on the streets of Istanbul in an oper*ation widely believed to have* been the work of Savama, the successor to Savak.

Prof. Manisali believes that, in the past at least, the social and political costs of the large Iranian population were more than outweighed by the economic advantages. The community's wealth and spending power is almost impossible to calculate accurately, but Iranians, he claims, hold assets in the country estimated at several billion dolars, while the community spends more than $500m a year on goods and services.

But for many of those whose money has run out and whose prospects of going to the West are non-existent life in Turkey is a long miserable wait.

Richard Cowper


The Parliament buildings in Ankara

Turkey's hopes of achieving full EC membership remain high

Need for thought in Brussels

IT IS NOW more than a year since Turkey, rejecting behind-the-scenes advice from countries such as Britain and West Germany, went ahead and applied for full membership of the European Community.

Officially, the European Commission in Brussels is now studying the application and will in due course produce a formal "Opinion" to submit to the Council of Ministers, for a decision about whether or not to proceed with negotiations.

In the past, negotiations have gone ahead as a matter of course, even when, as in the case of Greece's application, the Commission produced a somewhat negative report, warning, among other things, that the Community was not, and must not, become a party to the disputes between Greece and Turkey.

In the case of Turkey, however, things are somewhat different. There are several things which would make policy-makers in Brussels pause for thought, even if the EC were not preoccupied with the task of absorbing Spain and Portugal. These include:

■ Turkey's size: It has a population of 56m, and is growing by about 2.5 per cent a year towards the 100m which Mr Turgut Ozal, the Prime Minister, describes as the country's "optimum population."

■ Its relative economic backwardness: GNP is usually put at $1,200 per capita. Though officials claim that purchasing power parities yield a figure above $3,000 a year, this is still far lower than any EC member.

Despite the fact that martial law has officially ended in Turkey, military tribunals are still sitting in judgment on civilians

■ An uncertain political record: Though Turkey had free general elections last November, it has had three military coups in 30 years. It also has a constitutional and legal system which gives rise to continuing anxieties, as one EC official puts it, "about whether Turkey is really a modern European-style pluralist society."

Though martial law has officially ended in Turkey, military tribunals are still sitting in judgment on civilians, and sometimes for offences committed before martial law was declared. There are certainly several thousand civilians, mostly political extremists, serving long jail sentences passed by military courts. Reports of torture continue.

Last November, two leaders of Turkey's banned Communist party returned to the country amid a blaze of publicity. They were immediately arrested, and later claimed to have been given water and electrical tortures. An official investigation got nowhere, and the two men now face up to 60 years in prison.

■ Conflicts with EC members and institutions: Apart from its dispute with Greece, Turkey has a more or less intractable foe in the European Parliament, where socialists, communists and some liberals regularly vote against it. Once one problem gets out of the way, another, such as last November's jailing of the Communist leaders, seems to get under way. There seems to be a clash of mentalities.

■ An Association Agreement which does not work: Turkey has had an Association Agreement with the Community since 1964. Its claim to be a European state and eligible for full membership rests on this document. However, the association has been paralysed since the late 1970s, and successive attempts to reactivate it have failed, partly because of the role that Greece is now able to play in the Community.

On the other hand, a "no" from Europe would have profound repercussions for the future. Rebuffing Turkey will solve nothing and may create new problems. Apart from its much vaunted status as a military ally, Turkey is an increasingly strong regional and industrial power on Europe's doorstep.

All the indicators suggest that the relationship between Turkey and the Community is going to become steadily more important. One senior member of the Commission in Brussels is of the opinion that relations with Turkey are second only to relations with Japan in their long-term importance.

The obvious way out would appear to be to reactivate the Association, and embark upon a long transitional period which might in the fullness of time culminate in Turkish membership.

This is not an approach which finds favour in Ankara. Turkey is used to a fairly easy ride with European institutions, such as the Council of Europe, and does not fully see why the EC should be different. It is also alarmed by what it sees as growing Greek assertiveness in the Community which, despite promises given a decade ago before Greece joined, seems to be chiefly directed against it.

Hopes of a gradualist approach received a rude shock on April 25 this year, when a meeting of the Association Council was due. The last full meeting of this body took place before the 1980 military coup. Until it, and the corresponding parliamentary Council, meets, the Association between Turkey and the EC cannot be fully reactivated.

However, the April 25 meeting in Luxembourg broke down within minutes, because the Community inserted a reference to the Cyprus dispute into its preliminary statement, apparently at Greek insistence. This was such a predictable denouement that it has led some observers to question whether or not the larger European nations are sheltering behind Greek hostility to the Turks.

Mr Ozal is undeterred. His strategy now seems to be to centre on defusing Greek hostility by carrying his olive branch in person to Athens in an historic visit next month.

Meanwhile, Turkey is doing what it can to prepare the way for EC membership on other fronts. Legislation and administrative practices are being reviewed. Community nomenclature is to be adopted as a preliminary to further harmonisation. Last December, Turkey resumed a schedule of tariff cuts, supposed to have been under way since 1973, which was halted in 1976.

Unfortunately, only two weeks later, other cuts eroded the overall preference for the Community in Turkey's customs regime and actually took some of its tariffs to levels below the EC Common External Tariff. This, say Foreign Ministry sources, was an oversight and will be corrected.

Despite all these difficulties, opinion in Ankara remains fairly optimistic, with hopes being fanned perhaps by carefully worded statements of general support given by visiting EC leaders, including most recently Mrs Thatcher, the British prime minister.

Veteran observers, such as Mr Tevfik Saracoglu, a former Turkish ambassador to the Community, who now heads a Research Institute in Istanbul, are less sanguine. "Our leaders are too optimistic," says Mr Saracoglu. "We can't expect membership in 10 years."

He sees the drive towards Europe as a long haul in which Turkey can eventually succeed. "If the Community does say no to our application, I don't think there will be a drastic reaction on the part of the Turks. They will wait patiently, and in the long run the Community will come round to the view that it will have to accept Turkey," he says.

David Barchard

Agriculture

Greenhouses heat up

FARM MINISTERS among Turkey's European allies may be throwing up their hands in horror at the idea of a 55m-strong nation with an agricultural surplus joining the EC. But Ankara's Ministry of Agriculture is optimistic that the country's farmers and agro-industry will reap considerable benefits from the application, whatever its outcome.

Already one of the biggest ministries in a country where agriculture accounts for about 18 per cent of gross national product and about 25 per cent of exports, the Ministry of Agriculture has set up a high-powered section of 150 people to prepare for joining the Community.

"When the giant South East Anatolia irrigation project is finished we will have more than 1.7m hectares of high-class land on which to grow export crops. With our early spring and sunny days we will be in a position to boost our exports of fruit and vegetables to the EC in a sector where there is no subsidy regime," says Mr Kemal Bedestenci, head of the EC department at the Ministry.

"Even if the EC says 'no' the discipline of preparing for entry will be a real advantage ... Turkey is a traditional agricultural exporter. If we don't join we will continue our exports and they will be more competitive than ever," he says.

Mr Bedestenci is hoping for a sizeable inflow of European investment into Turkish horticulture and agriculture. In particular he is looking to the greenhouse industry, which has made considerable strides in the last decade.

Hundreds of plastic greenhouses producing cucumbers, peppers, green beans, flowers and tomatoes have sprung up in the south and south west along the shores of the Mediterranean and Aegean. According to Professor Tekinal, Dean of the Agriculture faculty at Cukurova university, Turkey now has 11,600 hectares of greenhouses compared to just 3,500 hectares 10 years ago. This compares with 17,000 hectares in Italy and 12,500 hectares in Spain.

"If the Dutch came in with capital and expertise, with our climate and cheap labour force we could do well in Europe in an industry where there is essentially a free market," says Mr Bedestenci.

In other sectors such as wheat, meat and dairy products and olive oil, however, Turkey is strong in products where there is already oversupply in Europe. The fear of having to finance a substantial transfer of resources to Turkish farmers, coupled with the country's potential for an even faster growth in the agricultural sector, is likely to be an important consideration in the EC's response to Turkey's application for membership.

In spite of the lack of government investment, Turkish farmers have already shown how adaptable and successful they can be when offered the incentives. Turkey is one of a handful of countries to be self-sufficient in food and this has been achieved in the face of a remarkable growth in population.

With the exception of a lacklustre 1.8 per cent growth rate last year, the expanding technical revolution in domestic farming, horticulture and husbandry has helped to push agricultural growth ahead at an average annual rate of about 4 per cent over the last decade – well above the annual population increase of 2.5 per cent.

In spite of these production advances, annual incomes of most Turkish farmers are far below $1,000, compared to an EC average more than 10 times greater.

Says a senior European expatriate involved in Turkey's agricultural sector: "If the EC were to give price guarantees to Turkish farmers, the transfers involved would be unthinkable in the context of the CAP. If these incentives were combined with additional policy measures by Ankara on such issues as land reform, the country could become an agricultural colossus that would make nonsense of EC policy on agriculture. The EC can hardly digest Portugal and Greece. Turkey would pose a problem of 10 times that dimension."

Mr Husnu Dogan, the Minister of Agriculture, responds with understandable annoyance to such arguments. He argues that joining the EC will take a decade or more, by which time a lot will have changed in Turkey and the EC. Turkey will have become more advanced and competitive agriculturally, while the EC will have been forced to abandon its "nonsensical" high cost subsidised agricultural policy.

"The EC cannot go on with this kind of policy on wheat, whether Turkey joins or not. If the world price is $90 a tonne it just doesn't make any sense for them to pay their farmers $300 a tonne. Whether we join or not the CAP will have to be reformed," he says.

"The question of agricultural subsidies is not just a problem for Turkey, and EC consumers. The industrialised world should not try to compete with developing countries in areas in which they clearly do not have comparative advantage".

Richard Cowper

The state-owned banks' corporate identity is being transformed

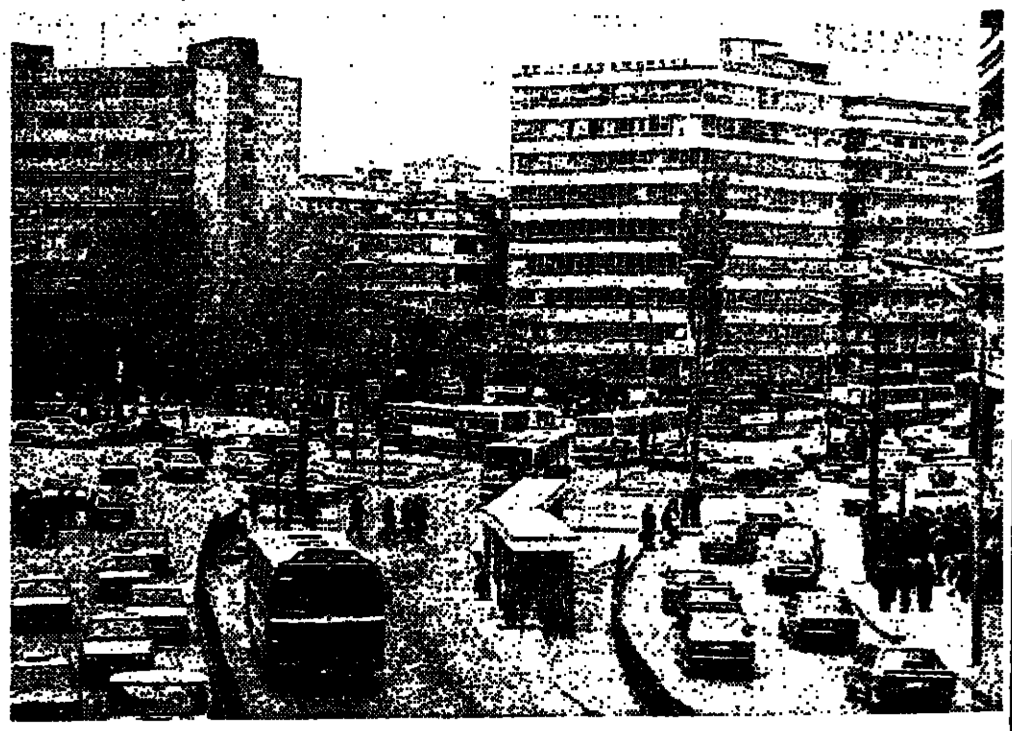
MR OZAL'S SECOND term in office has begun with a shake-out in the state banking sector which is likely to have important long-term effects for the economy.

The two largest state banks now have youthful general managers, brought up in the international banking world. However, two other respected figures have been swept away by the changes.

Though Turkey's best-known banks, with a few exceptions, are Istanbul-based private sector concerns, the largest banks are state-owned and based in Ankara. Turkey's largest bank is the Ziraat Bankasi, with total assets of TL 20 trillion (£1.9bn), 1,250 branches, and 42,000 staff, which channels credit to the country's agricultural sector - and in the past in many other directions as well.

The third largest bank, and second largest state bank, is the Turkiye Emlak Bankasi, born of a merger earlier this year between the Emlak Kredi Bankasi and the Anadolu Bankasi. It specialises in housing credits. Both these banks are state-owned.

The second largest of Turkey's banking giants, the Turkiye Is Bankasi, straddles the private and public worlds, being Ankara-based and largely owned by its employees. It owns what is probably the largest industrial group in Turkey and regards itself as part of the private sector.



Kizilay, the central business district of Ankara

Banks' new brooms

As in other countries, Turkey's state banks have long been manipulated by government and politicians to solve the problems of individuals and institutions, and their affairs have sometimes bordered if not actually on the murky, at least on the unintelligible.

The Ziraat Bankasi was used to mop up a series of banking insolvencies in the early 1980s, placing great strain on its resources and for a while virtually transforming it into an industrial bank, a role which was smartly reversed by Mr Turgut Ozal when he became Prime Minister in December 1983.

In the summer of 1985, the Emlak Kredi (as it then was) found itself owing more than $70m in foreign exchange guarantees fraudulently issued to a single customer by one of its branches. The bank paid up, but there were none of the ructions which would have followed such an event in another country – resignations at board level, public inquiries, and a review of the bank's operations to see how two signatures from a single branch could have got it into such a mess.

For customers of the old Emlak Kredi, belonging to co-operatives it sponsored – which were sometimes told that they had a loan and interest to repay without being told any details of just when and how the money had been extended to them – change was long overdue.

Both Emlak and Ziraat are now getting shock treatment from general managers intent on transforming their corporate identity. It is hard to predict how far the new general managers that Mr Ozal has put in will succeed in purging the legacy of the past, but at Ziraat, Mr Coskun Ulusoy, 32, has been in charge since January. He began by doing the unthinkable, ordering a general review of the bank's lending book and shutting the doors to a stream of habitual borrowers. He also made TL 225bn of provision against bad debts.

"I want to turn this bank into a rational place where decisions are made on clear commercial and economic grounds," he says. "I want to get rid of subsidies and stick to banking. From now on, we will be extremely selective when making commercial credits."

One foreign banker says: "Things have changed dramatically at Ziraat since Coskun took over. The crowd of hopefuls waiting in the anteroom outside the general manager's office is no longer there. The place seems deserted by comparison with the old days."

Mr Ulusoy, who has asked the Government to push through new legislation to enable him to recruit bankers from the private sector, says: "We have to reorganise to be able to manage a structure this size effectively."

Mr Semiler hopes that the merger of the old Emlak Kredi and the Anadolu Bankasi, which he has been running since August 1986 will be completed this month. He has brought the bank's headquarters to Istanbul to take it away from the bureaucratic ethos and ministerial pressures of Ankara.

He hopes that a first step to eventual privatisation can be taken in the next two years, probably by selling a slice of the bank's equity to its employees. Meanwhile he is also concentrating on building up a modern management team, a task which is likely to take years, though he has already scored one success in recruiting an adviser from the World Bank.

Both general managers know that they have to work fast before their window of opportunity closes. There are at least four years to go until the next general election and they have the personal support of the Prime Minister for their task, as well as a young and reformist governor at the Central Bank, behind them.

But as elections approach, the two banks undoubtedly will come under greater pressure to return to their old ways. If by then the management culture of both institutions has been transformed, there may be some chance of withstanding the political pressures in Ankara.

"We live in a political environment and there will always be some considerations for a bank of this size," Mr Ulusoy says.

However, personalities still play a considerable part in state banking in Turkey and not all the changes are good news. This spring saw the resignation of the very capable general manager of the Sekerbank, Mr Yalcin Amanvermez, and of Mr Erkan Tapan, general manager of the Sumerbank.

"The first was a tragedy and the second a pity," says one of Turkey's best-known bankers.

David Barchard

Profile: Bulent Gultekin

Key figure in privatisation

"I AM proud to be an academic," says Bulent Gultekin, a Turkish-born Professor of Public Finance, at Wharton College in the US and, since last November, chief adviser to the Prime Minister, and head of the Public Participations Fund.

The tasks he is now embarked upon, however, sound distinctly unacademic. As head of the PPF, Dr Gultekin controls extra-budgetary funds of about $3.5bn, or about 6 per cent of GNP. He has also become the key figure in the Government's privatisation programme, as the PPF is the main agency for transferring state enterprises into private hands.

"But I am only on loan to the Turkish Government, and taking the job one year at a time," says Dr Gultekin, whose dual nationality (he holds an American passport and is married to an American) has not always gone down well with the local press.

Born at Iznik, Dr Gultekin is the son of a civil servant who worked in the Soil Products Office. He was a scholarship boy who read Mechanical Engineering, and, after a spell with Columbia Pictures, migrated to the US, where he completed a PhD on financial statistics and taught at Dartmouth and Chicago Graduate schools, before settling down as professor at Wharton.

In 1986, he was prevailed upon to return to Turkey as Head of Research at the central bank. His return, as for other Turks coming back after a long period in the US, involved a degree of culture shock and readjustment.

In the summer of 1987, Dr Gultekin, by now a figure held in great respect and affection by foreign and local bankers, finished his contract and returned to his post in the US, gently congratulating himself as he did so that he had been able to produce at least one academic article a year during his time away.

A few months later he was back in Ankara, this time in one of the most important administrative posts in the country. "It takes time to learn how to control your own time when you are an administrator," says Dr Gultekin. "I know how this job ought to be done, and I know how it is actually being done. Until that gap is bridged, I can't rest."

The most important part of his job consists of organising the extra-budgetary funds which sprang up on an ad hoc basis during the early years of the first Ozal government and whose accounts, it is widely believed, were in a fairly ramshackle state when he took over.

"If you are not careful, there is a tendency for extra-budgetary funds to become slush funds," says Dr Gultekin. "There are no fewer than 96 of them, and some are very minor and should be consolidated."

Bulent Gultekin: toughness to take unpopular decisions

He began by organising an internal audit and insisting that borrower organisations pay what they owe on time and in full, and not make use of funds for anything other than their legally specified purpose.

Mr Ozal favours the funds as a way of concentrating financial resources and directing them swiftly to particular purposes, in a way which is said not to be possible with spending that goes through the budget.

The largest of the funds, the Mass Housing Fund, set up in December 1983 and relying on levies on luxury imports and foreign travel, now has a considerable record of achievement. It has financed the construction of more than 210,000 housing units in four years, and this year is expected to build 110,000 more. Altogether it has supplied homes for 590,000 people. It offers subsidised housing credits at between 15 and 40 per cent, depending on the size of the project.

The aim of the PPF is to finance infrastructural projects, dams, highways, bridges and ports. It has also helped finance water supply projects in Istanbul, Izmir, and Bursa, in return for which it receives 8 per cent of the water revenues of those cities.

Loans are made at commercial rates to public sector organisations and are expected to be repaid. Perhaps predictably, there have been one or two government agencies which have not honoured their side of the bargain.

A further fund, the Defence Industries Development Agency (DIDA), is run by Dr Gultekin's predecessor as head of the PPF, Mr Vahit Erdem. Its purpose is to help establish defence industries in Turkey.

Because the funds play a major part in credit and monetary policy, the central bank and the Treasury work closely with Dr Gultekin and from time to time intervene. The levies on which the funds rely provide a further instrument of economic control, though, since they are in effect a euphemism for additional indirect taxation, not a universally popular one.

The levies, rather than conventional tariff barriers, are now used to regulate import demand – a fact which has caused the European Community some unhappiness. This year an increase on some internal levies took the place of a more visible increase in taxation.

According to the Government's philosophy, the funds, and the levies which finance them, are only a temporary instrument. One day, officials argue, they will be phased out or dismantled; in the meantime, they are easier to adjust swiftly than conventional taxes and tariffs.

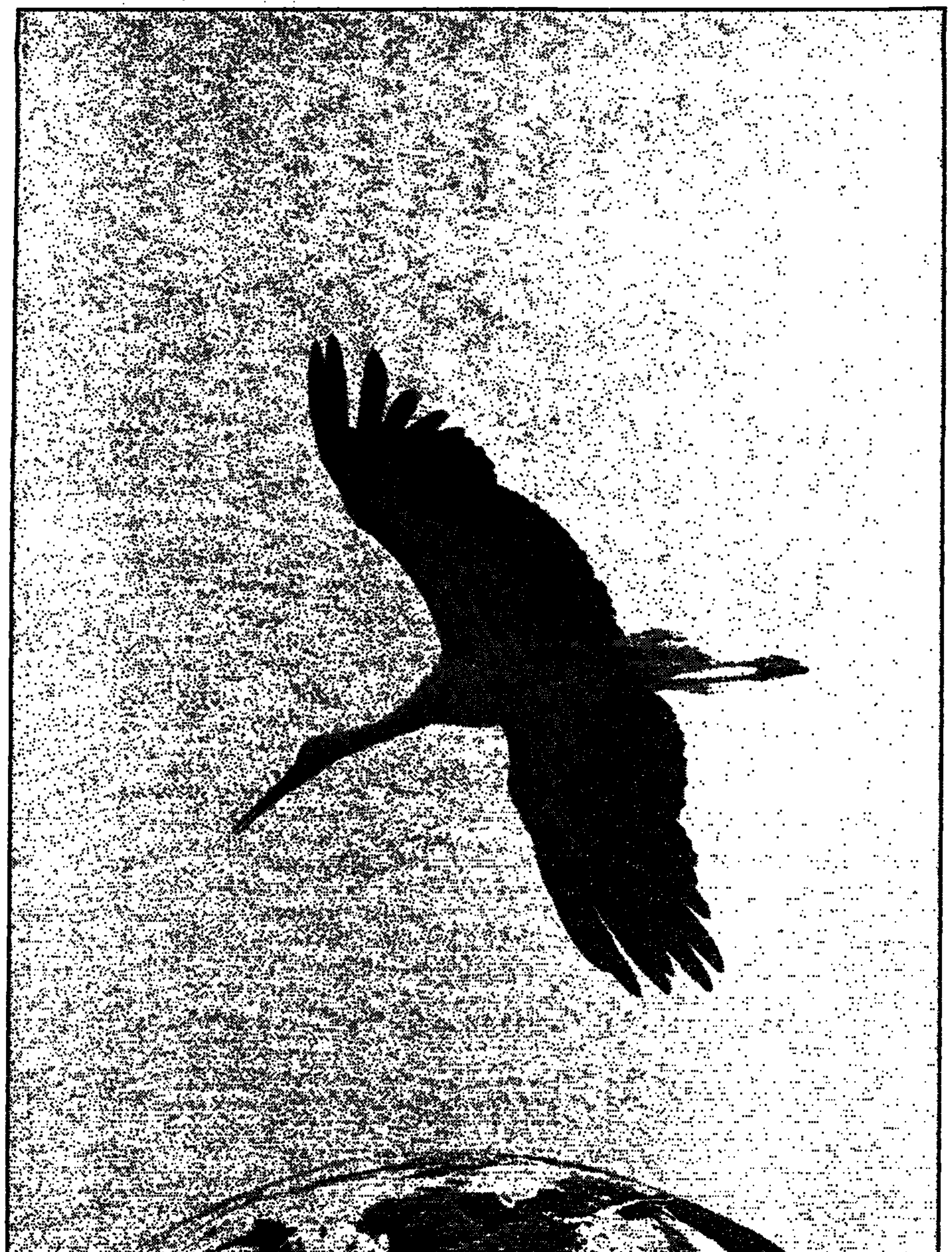
Dr Gultekin, who operates from a plush establishment which, until last year, was the headquarters of a bank that had to be bailed out by the Treasury, is concentrating much of his energy on recruiting new staff. Getting young Turks with international experience to work in the public sector is notoriously difficult.

It was therefore something of a minor triumph when he managed to persuade the general manager of one of Turkey's industrial groups to join him.

There has also been some blood-letting. A row with the (widely admired) head of the Sumerbank, a publicly owned banking and textiles organisation which has been transferred to the PPF for eventual privatisation, led to the general manager's resignation in a blaze of adverse publicity.

The episode proved, however, what some had doubted: that Dr Gultekin had the toughness to take unpopular decisions and stick to them. With him at the helm, the PPF and its sister funds look set to be transformed into sophisticated modern financial agencies, quite unlike anything Turkey has known before.

David Barchard



Banking

Hair-raising changes in market conditions

DOING BANKING in Turkey is a bit like riding a roller coaster. Everything hurtles along at a giddy pace. There are terrifying rises and falls in the market but, in the last resort, almost everyone has a good time and no-one – except for the very silly – falls overboard.

Changes in conditions in the Turkish banking market over the last year would make many Western bankers' hair stand on end. Commissions on foreign exchange transactions for importers have fluctuated between about 30 per cent and 3 per cent in the last six months. The overnight rate for Turkish Lira on the interbank market touched 99 per cent in early April. A few weeks earlier it had been 16 per cent.

However, recent policy changes may have a more sobering effect than their predecessors. On February 4 this year, when the new interest rates and reserve requirements were announced, the Turkish banking sector had its biggest shake-up since it was unwillingly introduced to interest rate competition in July 1980.

Within weeks, excess Lira liquidity drained out of the markets. The change is healthy for the Turkish economy but should mean that 1988 will be an uneasy year for many Turkish banks.

"The average yield on our assets was 43 per cent but the average cost of liabilities was 37 per cent, giving us a margin of about 5 per cent," says Mr Ibrahim Betil, the general manager of the Garanti Bankasi. "Since February 4, both sides have gone up and the margin has fallen to between 3 and 3.5 per cent. We cannot fully reflect the increased cost of funds in our lending. Prime corporate customers won't stand for it."

Current accounts now earn up to 36 per cent and deposit accounts around 65 per cent. Rates on loans annualise at around 120 per cent – about 40 per cent more than they did a year ago. Banks have to place 16 per cent of their TL holdings as required reserves with the Central Bank, and (by next month) 25 per cent of their foreign exchange holdings.

This turbulent financial environment is mainly the result of long-range economic dilemmas with which the government has been wrestling throughout the 1980s. What might have been temporarily painful problems, with high inflation, higher interest rates and growing numbers of bad debts, have become chronic ones because the Turkish government has consistently favoured rapid growth and been reluctant to risk a spate of major bankruptcies and insolvencies.

Inflation has never dipped below 25 per cent in the last five years and is currently over 75 per cent. Positive real interest rates have been maintained much, though not all, of the time, making for a predictable burden of corporate bad loans.

By last year, the bad loans are thought to have contracted to well below the levels of a year or two back, when informed estimates used to put them at between a third and a half of total lending.

For though the market is messy, it is usually also very profitable, thanks to wide margins and stiff commission charges, and an underlying policy of creating conditions in which the weaker banks could eventually write off their debts.

Last winter, for example, a foreign currency shortage forced the banks to charge extraordinary commissions of up to 30 per cent for some weeks. More than one general manager says he is ashamed to say what he charged.

If there is a squeeze on profits in 1988, whom will it hurt? Turkey now has about 60 banks in a highly segmented market, ranging from slow-moving giants with large deposit bases to a plethora of relatively sophisticated small operations, many of them either foreign-owned or joint ventures, relying on the lucrative trade finance market.

Trade finance and foreign currency operations are likely to stay profitable. Turkey's expanding volume of foreign trade (exports and imports grew by 36 and 27 per cent respectively in 1987) has attracted a stream of new entrants to the market, with the blessing of the Central Bank which sees them as a means of bringing in new capital.

Six new banks were announced last year, several joint ventures with Arab banks. Small local banks are also learning how to switch to trade finance operations, such as the Esbank which made net profits of TL6.5 bn (£2.9m) on foreign trade transactions of $500m.

There may be other fortunes to be made at the specialist end of the market. Mr Husnu Ozyegin's specialist Finansbank has done handsomely during its first six months of trading. Bankers Trust of the US this month launched an ambitious joint venture with the Turkiye Is Bankasi. The new bank will be known as the Turkish Merchant Bank with Dr Vural Akisik, till now general manager of Interbank, as its chairman.

Innovators such as Interbank and Iktisat Bankasi have been steadily extending their skills and deepening their management base over the last few years. At least one manager of a foreign bank in Istanbul believes that the way forward for the sector lies in these and other "new generation" banks growing steadily, while the older and larger banks die.

These small but internationally experienced banks will certainly find it easier to adjust to the new market framework being created by the Central Bank under its new governor, Dr Rusdu Saracoglu. This year, for instance, some of the larger Turkish banks are wrestling with the need to publish independent accounts. Most of the small trade finance banks have been independently audited for half a decade or more, and publish all the ratios needed to assess their performance.

Things look bleakest for one or two larger privately-owned banks, used as cash-cows by the industrialists who own them and who are currently rumoured, perhaps because times are harder, to be exerting more control than a few years ago.

It is hard to imagine the giants of the Turkish retail banking world withering away. The Akbank, which belongs to the Sabanci Group, soared ahead of the rest of the market, with post tax profits of TL 167bn ($128m), thanks mainly to its famously canny management, though perhaps also to a policy of investing heavily in tax-free Treasury bonds at 65 per cent.

David Barchard

The outlook for the stock market is bleak, reports **David Barchard**

Privatisation upsets fragile market

October's world stock market crash is not the reason for the poor showing of the Istanbul Stock Exchange (above)

ISTANBUL'S infant stockmarket is in the doldrums, and the Government's privatisation programme is partly to blame.

Talk to officials in the new building on the edge of the Golden Horn to which the Stock Market moved last October, and conversation revolves mournfully around the low ebb in the market's fortunes.

In Ankara, Prof Ismail Turk, the head of the Capital Markets Board, the watchdog body which supervises Turkey's money markets, says: "The Stock Exchange has been in serious decline since October."

The worldwide stock market crash in October is not the main reason for the present sad showing of the Stock Exchange. "The real fall for us came in January and February this year," says a stockmarket official. "The events of last October had no real effect on us, even though prices had been on the slide since the summer. Between mid-November and the year end, they even started going up again."

All this has to be seen in the context of a very new and rather fragile market. The Stock Market was re-launched in December 1985 with 40 quoted shares of prime Turkish corporations, most of them offering only a tiny percentage of their shares for trading.

The market has since grown steadily and seems to have put down roots. There are now 55 shares traded, and the number of members of the stock exchange has grown to include about half a dozen foreign investors, as well as 11 of the foreign banks with branches in Turkey, and 6 unit trusts set up by the Turkish banks.

In all, the exchange now has 77 members including 42 banks, 17 securities houses, and 20 licensed traders.

However, there are virtually no institutional investors in Turkey. Most pension funds and insurance companies do not have the funds to invest in shares, and even if they wished to do so, the legal framework of social insurance bodies is very conservative, forbidding them (for instance) to invest in a partnership without Cabinet permission.

Last year, the second in the history of the new exchange, was a heady period. The index started at 216 in January, and was still at only 269 at the beginning of April, but that month it soared to 500, and during the summer months there was a frantic upwards movement in share prices, with demand far outstripping supply.

By August the market had reached a peak of 1,149, and some brokers were openly wondering whether the bubble might not be about to burst. At this point the exchange suffered its first blow. The government announced that it had started selling off its shares in half a dozen "blue chip" companies. Just how many were sold was never made public and it seems in retrospect that the number was probably negligible.

The effect, however, was to unsettle the market and start a slide in share prices. At the height of the summer, crowds gathered daily outside the Exchange to follow price movements and snap up any available shares. These now gradually melted away.

One reason why they did so, according to Professor Turkey, may have been the growing realisation among investors that increases in the market values of shares were usually not proportionate to the dividends they yielded.

In October the Stock Exchange moved from its cramped premises in Cagaloglu to new ones beside the Golden Horn. A system of written bids was replaced by the continuous auction. This reflected the distaste felt by the President of the Exchange, Mr Muharrem Karsli, about the original Stock Exchange Rules. The omens still looked fair.

The year ended with investors rather wiser than they had been about the limitations of stocks and shares, but with the market still in relatively good shape, and the index far above what it had been 12 months earlier.

Then came the government's post-election liquidity squeeze – which took most of the surplus TL out of the market. All forms of savings were affected, including bank deposits (which bear 65 per cent interest) and gold. But share prices were much the worst hit. Since February the index has sagged more or less continually and the graph seems to be heading inexorably downwards back to below the 500 mark.

All this was bad enough, but the government chose this moment to sell off its holding in Teletas, a joint venture with ITT, heralding the move as the first practical step in its privatisation programme. From the government's point of view, the sale went well enough. The Teletas shares sold briskly and actually went up in price for a while before joining in the general downwards trend.

"The sale helped cause a fall in the overall market prices," claims an exchange official. "It was a very unfortunate development. The timing was bad."

What happens next? The outlook for the stock market, as for most forms of saving in Turkey in the next few months, is fairly bleak with the government pledged to follow severely deflationary policies. Profitability and dividends are likely to be well below the 1987 levels. Nevertheless, the exchange should be able to plod its way through hard times, provided of course that all its 55 quoted companies manage to do the same. But it is unlikely to regain the impetus it enjoyed in 1987 for a long while.

This must inevitably raise serious questions about the viability of the government's privatisation programme, where preparations to sell off a number of state firms are now well advanced.

Apart from continuing to sell the government's minority stake in blue chip companies, it looks as if a sale of five cement plants belonging to Citosan, the state cement corporation, could take place soon. What such a sale would mean for the Istanbul stock market is another matter.

After Citosan, likely candidates for selling off include Turban, a state hotel chain; Usas, an airport ground services firm; the state petrochemical corporation Petkim; and the textiles corporation, Sumerbank.

"The aim of these sales will not be to raise revenue for the government but to help in the development of the capital markets," says an official at the Public Participation Fund, which handles privatisation projects with 18 staff.

That may mean selling not to the public through the stock exchange, but perhaps offering a fixed stake to existing companies, or to Turks working abroad. One idea being considered seriously is for Petkim. Is to sell a small minority stake, perhaps 15 per cent, to a foreign company which would be invited to play an active role as a managing partner.

Beyond 1988, perspectives grow clear again, at least in the eyes of officials. "The time for selling off the bigger state economic enterprises will come in a year or two," promises the PPF official.

Rebates have been removed but growth remains

Exports the priority

"EXPORT GROWTH is still the number one priority – inflation comes after that," a senior Treasury department official in Ankara said last month.

His Prime Minister, Mr Turgut Ozal, would have winced to hear such a comment made in public at a time when the Government faces a crescendo of complaints about price rises. But even Mr Ozal would not have denied the crucial role that trade plays in keeping his economic reform policies on the rails.

While inflation soars, interest rates tower and debt dues gulp foreign exchange, export performance supplies a much needed note of reassurance – even if it is helped by a policy of a declining exchange rate which itself means a significant element of imported inflation.

After a setback in 1986, exports surged by 39 per cent last year to reach $10.2bn, according to government figures. The official projection is for another healthy increase of about 20 per cent in 1988.

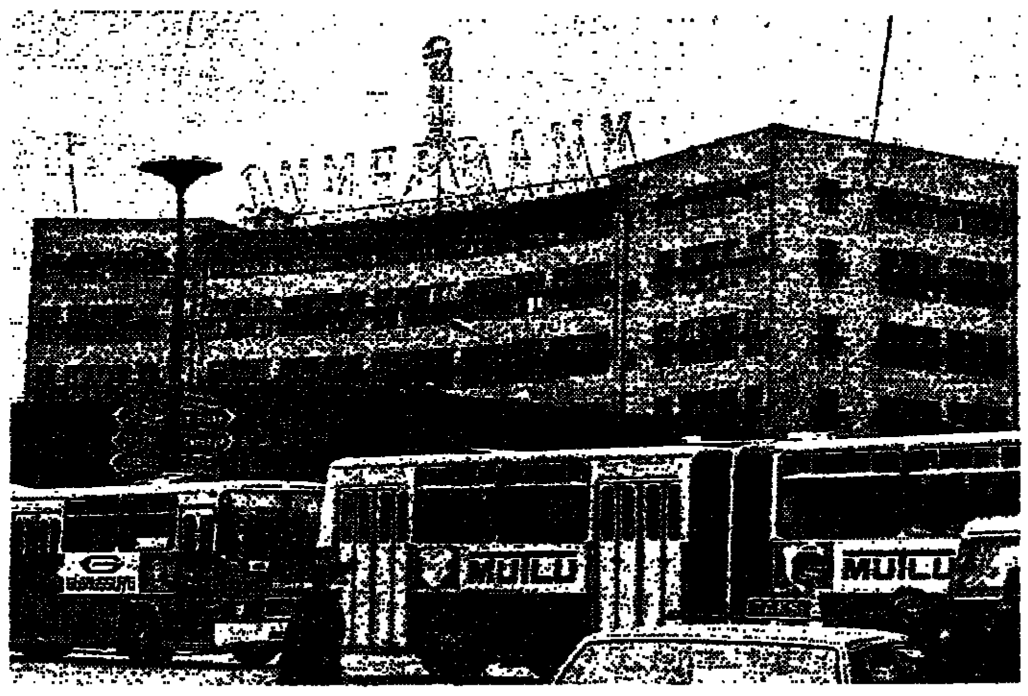
A mighty leap in textile sales – up by nearly $1bn to $2.7bn – led the way in 1987, bringing the value of textile exports close to the level of total agricultural exports. Weighing in behind, in descending order of value, were iron and steel products, leather goods, machinery, chemicals and electrical appliances.

Imports have also risen sharply, reaching $14.1bn last year, compared with $10.7bn in 1984. But the strength of export growth has meant that the growth in the trade deficit over the same period has been limited to about $400m.

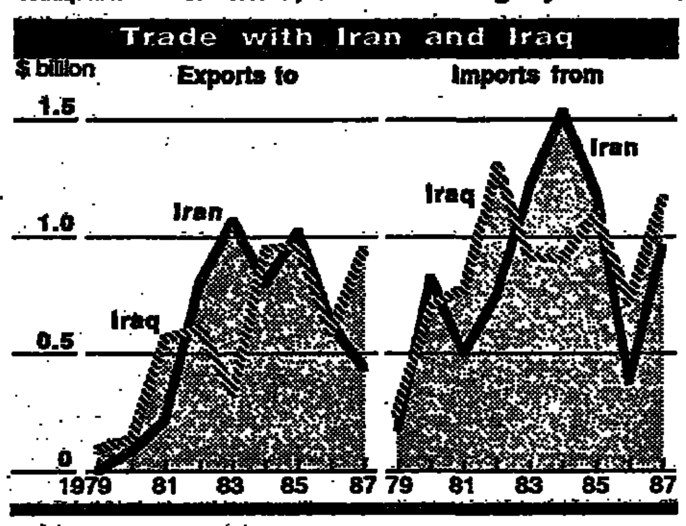
You will not find, however, that Turkey's growing band of export managers are relishing 1988. For them, the dominant feature of this year is a radical change in the Government's incentive regime.

Until this year, generous tax rebates were available to trading companies against export sales. These proved such a juicy lure that not only did they contravene the General Agreement on Tariffs and Trade (Gatt) rules, but they are also universally reckoned to have inflated the export figures by somewhere between 5 and 15 per cent.

The rebate system is being phased out over 1988, to be replaced by a system of revolving credits provided by the newly-founded Exim bank. These will be available only to companies with exports of more than $100m a year up to the value of 5 per cent of their export sales. This is in keeping with the Government's policy of concentrating the export drive among a small number of strong trading companies.



Headquarters of Sumerbank, the state textile agency: textiles led export growth in 1987



TOP 20 TRADING COMPANIES*

		Exports ($m)
1	Tekden	358.6
2	Penta	281.9
3	Mentesoglu	255.9
4	ENKA	253.3
5	Ram	246.8
6	EXSA	222.3
7	Edpa	220.6
8	Etibank	213.2
9	G Sanayicileri	210.2
10	Cam Pazarlama	191.2
11	Izdas	170.9
12	Temel	159.4
13	Mepa	149.1
14	Colakoglu	143.0
15	Meptas	134.6
16	Ak-Pa	134.2
17	Cukurova	134.0
18	Sizer	112.9
19	Yasar	110.5
20	Sodimpek	100.7

*1987 by exports

Source: FOB figures

"The companies are not very happy, but the rebate system made them lazy," said the Treasury official. "Now they will have to work harder."

Turkey, as reflected in its application to join the European Community, looks first to Europe for its export markets. The EC last year accounted for 47 per cent of foreign sales (nearly half of that went to West Germany). OECD countries as a whole bought 63 per cent of Turkish exports.

An ever-present bugbear in selling to the EC is the issue of quotas, particularly in the vital textiles sector. However, Turkish manufacturers are, in the words of one economic counsellor at a Western embassy in Ankara, learning to think in terms of quality not quantity.

Adding value through processing and packaging is the path to follow, but there is a long way to go. The food processing industry is an area where the potential is great but the achievement limited. There is, for example, almost no frozen food industry in Turkey, one of the richest producers of livestock, fruit and vegetables in the region.

In developing non-traditional sectors, Turkey has ambitions in consumer goods. RAKS audio and video cassettes have achieved a worldwide reputation, and Turkish white goods, such as Arcelik refrigerators, are beginning to be seen in some European countries. But the key issue in developing capacity in all these areas – and thus sustaining growth – lies in investment, something which will be hard to maintain while interest rates remain in the stratosphere.

Despite Turkey's determination to orient itself westward, the Middle East and North Africa have been key markets in recent years. The most important countries are Ankara's two warring south-eastern neighbours, Iran and Iraq, which together accounted for $1.5bn Turkish exports last year.

Turkey's landlink with both, its neutral stance in the Gulf conflict and its appetite for oil have led to fertile – but somewhat unstable – trading conditions. Twice in the past 18 months, Ankara suspended opening letters of credit for Iraqi importers when Baghdad's arrears mounted to $1.5bn. Iran has not so far posed such a problem, but any threat to its ability to export oil could have repercussions on Turkey.

Keeping up the momentum will be as important as ever

The outstanding feature on the import side since 1983 has been the reduction in the number of items requiring government approval for import from 1,300 to 33.

Some 1,400 items still carry duty of up to 50 per cent of their value, affording continued protection from outside competition for some local industries such as motor-car manufacturing. However, the high duty mainly covers luxury consumer goods. Last year, according to government figures, consumer items accounted for $1.1bn in imports, while raw materials and investment goods made up $9.1bn and $3.8bn respectively.

Given the other difficulties in the economy, keeping up the trade momentum this year will be as important as ever for the Government. Its export growth target may be undermined by the phasing out of the rebate system. It will need to avoid hitches like that which occured earlier this year when the policy of letting the Turkish lira adjust downwards against foreign currencies went temporarily awry, leading to a big black market for foreign exchange and distorting trading conditions. But the consensus seems to be that 1988 will see more significant export growth.

Hugh Carnegy

Energy supplies

Public spending cuts hit construction plans

ENFORCED PUBLIC spending cuts have come at a time when fortunately there is an electricity surplus. This has allowed the state-owned Turkish Electricity Board (TEK) to shut down plants and carry out long-overdue maintenance. But by the early 1990s, if the present high annual rates of growth continue, demand is likely to catch up and overtake supply again if more power plants are not built.

The cuts are unlikely to have much impact on the broad policy goals of the current five year plan (1985-89), particularly one of its key objectives, the encouragement of private sector participation. Another primary guideline is develop indigenous resources only if economically viable.

The spending cuts have hit the power plant construction programme hard. The State Hydraulics Agency (DSI), for example, which has 76 dams under construction for irrigation or hydro-electricity generation, has had its 1988 budget cut by half to TL1.6 trillion, a third of which will be eaten up by the giant 2,400Mw Ataturk dam scheme in the south-east.

In the next two years, it plans to start only one more major project, the 420Mw Kayraktepe dam, for which borrowing from the World Bank and commercials sources has already been secured – tenders will shortly be invited after a two-year wrangle between DSI and the World Bank over the numbers to be included on the tender short-list. But another major World Bank-supported scheme, the 510-MW Boyabat project, has now been deferred indefinitely.

The government's answer has been to place increasing emphasis on the construction of major power plants using the "build-operate-transfer" (BOT) method. This means giving private sector interests – foreign-led for the most part – a concession to raise finance for, build and then operate major utilities like power stations, making their earnings from the sale of output.

Several contracts have already been awarded to local groups for small-medium plants. However, protracted negotiations have dragged on for upto six major thermal plants burning imported coal – delayed further recently by the withdrawal of the Queensland government from an Australian-promoted group which was front-runner.

To speed up competition, the State Planning Organisation's foreign investment department under its new head, Dr Ibrahim Cakir, has now invited other competing groups back to the negotiating table. Mr Cakir says he is determined to award a contract for one of the schemes by the end of June.

Four groups are currently in the running. The first is led by the US Westinghouse Electric Corporation and Japan's Chiyoda Electric Power Company which took over the lead from Australia's Sea-pac Control Services after the latter failed to put together the Australian equity share), which has proposed a 1,400Mw scheme estimated to cost US$1,500m at Gazi near Iskenderun in the south-east. Next in line is a 960Mw plant at Tekirdag on the Sea of Marmara, estimated to cost US$800m proposed by a group led by the US Bechtel Corporation. Third is a proposal from a group led by Japan's Electric Power Development Company (EPDC) for a 1,000Mw project with an estimated cost of US$850m at Aliaga near Izmir. Finally, a project proposed by the Swiss division of Asea Brown Boveri for a plant at Ambarli outside Istanbul which is expected to cost US$1,170m is being held in reserve.

Smaller but nonetheless substantial BOT contracts are being negotiated for the construction of three hydro-electric projects, at Yedigoze, Camlica and Birecik. Dr Cakir says again that a contract for at least one of these can be expected this year.

Budget restraints have led to a preference for smaller plants, and development of hydro-electric plants, which although expensive to build initially, over time prove to be cheaper than thermal plants. There are several major thermal plants under construction anyway for the Turkish Electricity Board (TEK). East European companies have been to the fore in contracts awarded over the past four years for the construction of units fired by lignite (brown coal), despite the pollution problems it causes.

Although Turkey does have hard coal deposits in the Zonguldak region, their steeply inclined seams make working difficult and expensive. To keep pace with rising demand from power stations, production at lignite mines has been increased instead. During 1987 production was expected to have expanded by 10m tonnes to a total of 46m tonne and output is due to reach 67m tonnes by 1990. Around 40 per cent of output comes from mines in the Afsin-Elbistan basin.

However, the government is now looking to clean-burning imported natural gas for much of Turkey's future energy needs. According to an agreement reached with the Soviet Union, by mid-1990s about 6,000m cubic metres of gas will be imported via a pipeline just completed from the Bulgarian border up to Ankara. At peak periods, the gas will be supplemented by Algerian liquefied natural gas – an agreement was signed recently to import a total 20,000m cubic metres over the next decade.

An important pledge in the ruling Motherland Party's election platform last November was to extend the natural gas network to all the main cities and towns of Anatolia during its second term in office. The gas will fuel power stations, industry and home heating.

Even though domestic oil production has been jacked up recently to 2.6m tonnes, it accounts for only around 12 per cent of total hydrocarbon consumption. The rest has to be imported – at an average price of US$18.60 for the 142m barrels imported in 1987. This average price is expected to ease marginally to US$18 in 1988. The bulk of Turkey's imported oil comes from from Iraq and Iran – 8.5m tonnes and 6m tonnes respectively in 1987 – another dimension in Turkey's delicate balancing act of neutrality between the Gulf war combattants.

Jim Bodgener

Turkey's press is increasingly critical of the Government

Battling with Ozal

TENSION between Mr Turgut Ozal, the country's troubled Prime Minister, and Turkey's flamboyant and increasingly critical press reached an all-time high last month in a bitter row over newsprint prices.

For several weeks Government officials and journalists alike were talking of "open war" between a Prime Minister who believes the press has become the voice of the opposition and journalists, many of whom have never warmed to Mr Ozal and feel they have a duty to reflect deteriorating political and economic realities.

When Mr Ozal was elected Prime Minister in 1983 after three years of Army rule, he received the applause of many of the country's leading journalists who had long hoped for a return to democracy. But the honeymoon soon faded and since 1985 few of the nation's top 10 dailies have taken a pro-Ozal line.

The press has concentrated on unflattering photographs of the Prime Minister, playing up scandals about his family and listing evidence which they claim shows his economic policies are both unsuccessful and are making life intolerable for the ordinary Turk.

Since last year's election the dislike of Mr Ozal has taken the form of a barrage of outright criticism in the press, underpinned by the host of economic, political and labour problems that have come to plague the Government.

Istanbul newsstand: selling the voice of the opposition?

Last month Mr Ozal infuriated the press when he increased newsprint costs by 36 per cent on the same day that newspapers had already announced a 35 per cent increase in cover prices to reflect an earlier paper price hike. It was the 10th newsprint price increase in the past 12 months.

The Government claims it has been attempting to bring costs into line with economic reality. But since it has a monopoly in the paper industry, the move was widely interpreted as the latest round in a personal campaign by Mr Ozal to browbeat the press.

Officials have not been above using the laws on pornography, and the ability to grant or withdraw economic favours to press barons with other economic interests, as a stick to bring them into line.

Says one of the nation's most respected columnists: "The Turkish press, after facing years of censorship under a military regime is now facing an economic battle with a civilian government. It's a stupid war in which both sides will be the loser."

The newsprint price hike prompted Mr Erol Simavi, the normally cautious and much esteemed owner of Hurriyet, the nation's biggest circulation daily, to print an open letter on the front page of his newspaper accusing the Prime Minister of "bypassing reality." Mr Suleyman Demirel, the leader of the opposition True Path Party called it an "act of revenge."

Mr Ozal responded to this and the general howl of protest from the country's leading dailies by taking out a legal writ against Mr Simavi, and to back his claim that newspapers were "constantly publishing fabrications" he also took writs out against two journalists, three newspapers and a magazine. Most were accused of personal slander and, under a catch-all law, of publishing insults "against the spirituality of the Government."

"There is freedom of the press in Turkey, in its widest possible sense. The existence of it is seen through publications against the Government, the Cabinet ministers and the Prime Minister, which from time to time reach the dimension of insults," Mr Ozal retorted after reading Mr Simavi's letter.

Later, following talks with President Evren, Mr Ozal took a more conciliatory line. At a meeting with Mr Simavi the two appeared to patch up their quarrel. Mr Ozal offered an olive branch when he said he would think again about proposals to introduce even stiffer press laws. But the Prime Minister has not withdrawn his writs and these are expected to go ahead.

Why this deep antagonism? There are various theories. One is that some sections of the press are loyal to pre-1980 political leaders such as Mr Demirel who was supplanted by Mr Ozal. Another view has it that part of the criticism is inspired by the military.

The simplest theory of all, and one which would find support among many Turkish and foreign journalists working in Turkey, is that the natural tendency of the popular press is to criticise the government in power and that Mr Ozal has selected a ham-fisted team of press advisers who are only too ready to play on his own growing irritation with a press which he regards as having failed to appreciate what he has done for the country.

The state television network, which has an audience of about 30m Turks for the main evening news programme, is firmly behind the Government. With such a weapon in his armoury some commentators wonder why Mr Ozal has allowed himself to make press coverage into such a major issue.

The days of martial law, when the Army arbitrarily closed down newspapers and imprisoned scores of journalists, are gone. But more than 30 journalists from left-wing newspapers, rounded up in the September 12 1980 coup, remain in jail and even today confiscation, large fines and an occasional jail sentence can still be a hazard of the profession.

Compared with the press in Western democracies Turkish newspapers operate in a highly-restrictive legal framework. The 1982 constitution and the 1983 press law, enacted during the military regime, coupled with a spate of other legislation not directly related to publications, means that in theory at least crimes of thought and ideas can be heavily punished. The law is full of catch-all clauses that are a potential minefield for journalists trying to do their job.

To name but one of many examples, the 1982 constitution, devised by the military and still in place, states in article 13 that democratic rights and liberties may be restricted by law "with the aim of safeguarding the integrity of the state comprising its territory and the nation, national sovereignty, national security, public order, general tranquillity, public wealth, public morals and public health."

One of the country's most distinguished right-wing journalists has been in effect silenced as a result of economic pressure from the Government. Mrs Nazli Ilicak, who used to write a political column for her husband's financially troubled right-wing opposition newspaper, Tercuman, decided that she had no choice but to stop her column when the Government threatened to take stiff measures against the owner's economic interests.

Earlier this month, an Istanbul court sentenced Ms Fatma Yazici, an editor of the campaigning left-wing Ikibin-e-Dogru (Towards the Year 2000) to 16 months in prison, later commuted to a fine, for insulting President Kenan Evren. The indictment related to a cover story questioning whether the political philosophy of the current regime was Kemalist or Kenanist.

Ms Yazici is fighting 18 court cases as legally responsible editor for the magazine which frequently publishes articles testing the limits of harsh Turkish laws on such taboo subjects as the Kurdish guerrilla insurgency, Ataturk, the founder of the modern Turkish republic, secularism and Islam.

Yet in general, Mr Ozal's government has not deemed it necessary or desirable to apply the full weight of the law against the press. It would be churlish to deny that in many respects it is freer today than it has been for almost a decade. But freedom is relative. By European standards – and it is these by which Ankara says it wishes to be judged – Turkey has a long road to travel.

On sensitive issues the very threat of a battalion of legal instruments is enough to discourage many Turkish journalists from straying into difficult territory. Self-censorship is commonplace, giving rise to the adage that what you see, what you write and what you think can often be three different things.

Richard Cowper

Education

A lack of resources

ANKARA'S CANKAYA Lisesi ("Lise" or "high school" reflects the French origins of Turkey's school system) is one of the country's educational showpieces. Last year it won a prize in the Dijon International Festival, and its corridors are festooned with drawings and artwork by students.

Nonetheless, by Western European standards, its 180 staff carry a heavy burden, teaching 3,500 pupils in classes of 50 or 60 each. Education works on a shift basis, with half of the school coming in the morning and half in the afternoon, five days a week in a two-term year which stretches from October to May.

About 60 per cent of the Cankaya Lise's graduating students go on to university, according to the school's director, Mr Sadi Soysal. His school has computer rooms, laboratories for physics and chemistry, and a sports hall.

All of these things make the Cankaya Lisesi rather an exceptional school. However, in one respect, it is exactly the same as any other government-run school in Turkey. Its teachers earn meagre net salaries, comparable with those of other civil servants including some hospital doctors.

Admission to the school is free, and there is no entrance exam – though it is necessary to pass exams at the end of each year; and Mr Soysal says that a further 1,500 students are *beklemeli*, ie suspended until they can pass re-sit exams to rejoin at the start of the next academic year.

Schools like the Cankaya Lisesi represents the mainstream form of secondary education in Turkey, though other choices are available.

The state operates a network of special schools for high-fliers called Anatolian Lisesis, in various major cities. There are also private schools or "colleges", offering somewhat better facilities for pupils whose parents can afford the fees. Competition to get into these schools is ferocious, and depends on an endless series of exams, from the age of seven onwards.

For those who cannot pay fees, there are also vocational schools offering technical training. The largest group of these are the Islamic vocational schools to train the clergy. By 1984, there were about 250,000 pupils in the clerical schools.

There seems to be general agreement about what is wrong with Turkish schools: lack of resources. Population growth has meant that the number of pupils in education has grown from 400,000 to 15m in 60 years. There are 1.2m entrants to the system each year.

Most schools are much less lucky than the Cankaya Lise, with 80 or more students in a classroom, and several of their teaching posts unfilled.

Because national government in Turkey has concentrated on industrialisation and infrastructure in the last three decades, more routine services, such as health and education, have received less than their fair share of funds.

"In 1963," says Mr Hasan Celal Guzel, the Minister of National Education, "15 per cent of the budget went to education. By 1973 the figure was down to 13 per cent. By 1983 it was down to 12 per cent, and by 1987 it had sadly dropped even further, to 8.4 per cent. My main objective as Minister is to reverse this trend."

Mr Guzel hopes, despite current austerity measures, to be able to push education's share of the budget back to 9.5 per cent in a year, and to return to the 1983 level over the next few years.

To help find additional resources, the Government has followed its familiar strategy of setting up a special extra-budgetary fund which raises about TL200bn ($88m) a year, and has obtained a loan of $240m from the World Bank.

It was indeed a World Bank report 18 months ago, drawing attention to the shortcomings of Turkey's educational system, which helped spark increased government interest in education. The report is believed to have said that standards, particularly in technical schools, were well below the level needed in a modern industrial society.

Apart from lack of cash, other problems beset Turkish education. The national curriculum is regarded by most European teachers who have worked in Turkish schools as being far too ambitious and covering too many subjects – even psychology and astronomy.

There is a strong emphasis on frequent examinations and tests, which encourage parrot-fashion learning and copying and memorisation at exam times, and which discourage abstract thought.

"There are sometimes so many tests and exams that you don't have much time left for the teaching," says one British teacher who has worked in a Turkish lycee.

Mr Soysal says that examinations are somewhat less frequent than they used to be. "We have three exams in each subject each term, and two terms in the year – that's six examinations a year. We organise things so that a student never has to do more than two examinations in the same day."

A more subtle problem is politics. Turkish schools are supposed to instil "national" attitudes. In the 1970s they proved breeding grounds of extremism, and murders and gunfights between left-wing and right-wing groups were common.

The violence has now gone (though it is not far below the surface: lise students are still divided along similar lines, the only difference being that the neo-Fascist groups of the 1970s have been replaced by religious ones).

The Ministry of National Education itself attracted controversy between 1983 and 1987 when it was regarded by the public as a bastion of Islamic revivalism, with several of its top officials having strong loyalties in that direction.

The appointment of Mr Guzel as Minister last December is the first time for many years that a political heavyweight, capable of formulating original policies and winning backing for them, has been placed in charge.

If he can get the resources, Mr Guzel wants to introduce full-day education, and cut class sizes. "We have to multiply the educational capacity threefold, but that means very big investments."

He is currently working on an education master plan, and wants to introduce proficiency examinations, linked to international ones through Turkish universities. To stimulate improved standards in language teaching, he has made languages optional but brought in a system of incentives.

He would also like to rely more on computers and television for teaching – methods which would apparently cut down reliance on teachers. Turkey is likely to become a relatively big spender in the educational technology markets.

All the same, it is difficult not to agree with the opinion of a foreign diplomat who says bluntly: "Until the country pays its teachers more, Turkey cannot expect much from its educational system."

David Barchard

Petrochemicals

At watershed

FOR THE managers of the huge Alpet petrochemicals complex at Aliaga, 60km north of the Aegean port of Izmir, these are challenging times.

Just as they are struggling to bring the still shiny new plant up to full production, they find themselves being thrust into an operating environment quite different from what they reasonably could have expected only a short time ago.

Alpet is a subsidiary of the state chemicals company Petkim. Planned in the mid-1970s as a major addition to Petkim's existing petrochemicals Yarpet complex, at Yardimca near Istanbul, it was conceived as a classic import substitution investment. It was to have as its main source of raw material an adjacent state-owned oil refinery, from which it would buy at set prices; it would be protected from outside competition by import duties; and it would have a captive domestic market.

Along the way, however, came the reforming government of Mr Turgut Ozal, which first came to power in 1983 just as construction at Alpet was nearing completion. Before long, the world in which the complex was going to have to operate began to change rapidly.

In line with the Government's policy of exposing the economy to outside competition, Petkim now finds that duties on imports in its sector are falling. This year, for the first time, Alpet is not obliged to buy the bulk of its main raw material, naptha, from the neighbouring Tupras refinery, and thus can bargain for more competitive input prices.

Most significant of all, Petkim is one of the first two major State Economic Enterprises to be prepared for privatisation, a process which is already under way, albeit at a somewhat tentative pace.

Coming to grips simultaneously over the next few years with the twin tasks of maximising output efficiency and adjusting to the chilly blasts of the open market will determine the success of the $2.5bn Alpet investment.

It is a prospect which does not seem to have dimmed the enthusiasm of Mr Seyfettin Bicici, Alpet's cheerful general manager. He clearly relishes the novel experience of haggling over prices with Tupras officials.

Sure, he says with a smile, some of the 7,400 Petkim employees may be hesitant about privatisation, but he is not.

He is equally upbeat about the plant's performance prospects. Alpet's 12 main production units (it has its own steam and power plant, as well as its own port) produce low and high-density polyethylene, polypropylene, polyvinylchloride (PVC), phthalic anhydride, mono- and di-ethylene glycol, and a number of other inputs for use in plastics and solvent products. Most are made under licence from companies such as ICI, Shell, Mitsui and Mitsubishi.

According to Petkim figures, production totalled more than 900,000 tonnes last year, the first year that all output facilities were on stream. This year Mr Bicici expects production to reach 1.1bn tonnes, compared with total capacity of 1.2bn tonnes.

Some 80 per cent of output is consumed locally, satisfying well over half of domestic demand, according to the company. The proportion of output sold at home will rise, Mr Bicici says, if the economy continues to experience strong growth.

But what if the current worries about economic performance prove well-founded and domestic demand slackens? Mr Bicici still has a ready smile. Alpet can always switch to more exports. Already this year, he envisages export sales of more than $150m, compared with more than $90m in 1987 when the top three customers were, respectively, China, the US and Italy.

Of course, Mr Bicici's optimism may be borne out in due course. But if events conspire to defy his confidence, a serious complicating factor will be the hitherto serious problem of debt. Alpet still has heavy outstanding dues on the credits raised to finance its construction from Turkish commercial banks and foreign sources (the latter credits totalled about $500m).

This year is nevertheless regarded as a watershed year, when the debt burden will at last begin to diminish.

Getting on top of its debts presumably will have a significant bearing on the Government's plans for privatising Petkim, which also includes a nascent tyre-making arm which has yet to get off the ground. Officials at the Petkim headquarters at Aliaga say detailed discussions are still going on with Ankara on the issue.

In the meantime, enthused by the mood of private enterprise, Petkim is looking for private investment in new projects.

Hugh Carnegy

هكذا من الأصل

Few analysts think the armed forces are planning a fresh bid for power, and yet . . .

Fears persist of military intervention

AT A TIME when most Turks are united in their desire to see the continuation and development of civilian democracy, President Kenan Evren, the general who led the army coup in 1980, has raised yet again the spectre of military intervention in Turkish politics.

Less than four weeks ago the President jolted the nation when he said in a speech that the Army would intervene if necessary to prevent any return to the political violence of the late 1970s in which more than 5,000 people were killed.

His remarks were aimed primarily at damping down growing political and labour unrest arising out of government attempts to tackle spiralling inflation and reduce the country's economic growth rate to a more manageable level.

But they clearly touched a sensitive nerve in a nation which is pledged to become a full member of the European Community and is still struggling to find a workeable and sustainable form of democracy to take it into the next century.

In spite of considerable public back-pedalling afterwards, his speech has been met with a hail of criticism from government and opposition alike. Few in Turkey are confident that an army which has stepped in to take over the reins of power three times since 1960 will always be content to remain on the sidelines.

In an opinion poll carried out last month for Sabah, the country's second largest daily newspaper, by the private Piar research organisation, almost three-quarters of those polled said they believed democracy was best. But 87.5 per cent expressed fears over the possibility of the military assuming power again.

On April 22 Mr Turgut Ozal, the country's Prime Minister, himself asserted that "certain forces" in Turkey favoured yet another military intervention.

Such a moment has clearly not arrived and few analysts believe the country's powerful armed forces are seriously contemplating a fresh bid for power.

Yet even in normal times, the influence of the military in Turkey is pervasive at all levels of life. Schoolchildren have weekly lessons in National defence from army officers.

Criticism of the military, even direct discussion of its role, is taboo. Civilian values and institutions play second fiddle to those of the military and its claim to be the ultimate arbiters of national identity and interest.

The military planted its stamp on civil society even more strongly during its years in power after 1980. The 1982 Constitution explicitly limits civilian political activity to areas which the military finds acceptable and it has the formal legal right to intervene again in politics if it is felt necessary.

Mr Ozal is continuing his efforts to complete the civilianisation process which started when he took over from the military in 1983, but in several key areas the armed forces are only reluctantly giving way.

The Prime Minister has moved to grasp control over foreign policy - an area in which the Army has traditionally felt the right to make a strong input.

When the Aegean crisis was at its height in March 1987, the Turkish army held a press conference in which it said that if a Greek battleship intervened in the disputed area where a Turkish oil rig ship was operating it would be a "reason for war."

A furious Mr Ozal, who was outside the country after having had a triple-bypass heart operation, is believed to have rung up the President and told him in no uncertain terms that such inflammatory gestures were not acceptable. It was then that he decided to write a personal letter to Mr Papandreou, the Greek Prime-Minister and from it sprang the fragile new spirit of rapprochement with Greece.

Last year Mr Ozal felt confident enough to take the struggle into the military's own camp when he imposed his own candidate as Chief of Staff on the Army. It was a considerable feat for, since 1960, the armed forces had essentially been an autonomous corporation in charge of its own key appointments.

If the Army is still struggling to adapt to new political realities it has also yet to fully put its own house in order.

Instead of opting for a small, professional modern army like the rest of Europe, it has chosen to maintain a large conscript force, which because of the rapid growth of Turkey's population continues to grow inexorably.

The country's 800,000-plus armed forces account for about 25 per cent of the government budget and continue to receive large doses of US military aid. But Nato's second largest army is badly equipped with out of date secondhand weapons, tanks, ships and aircraft, no modern air defence system, and a lack of any equipment for dealing with chemical warfare.

This prompts some doubts among Turkey's Western allies about its ability to do a professional job in its role as main protector of Nato's eastern flank, with a 610km long border with the Soviet Union.

Turkey claims that Nato has been mean with its cash, but part of the problem is that most of the country's own military budget is quickly eaten up by feeding and clothing a seemingly ever-expanding number of conscripts.

No one doubts the considerable bravery of Turkish soldiers, but the fact that 90 per cent of recruits leave after doing their 18 months' service means the armed forces is perhaps more successful as an institution for creating loyalty to the state and nation than it is in creating a modern fighting force.

Most military analysts agree that with Turkey's 55m population growing at 2.5 per cent a year and with almost everyone obliged to do military service, the armed forces may soon no longer be able to cope with the sheer numbers. Shortening the length of service offers one solution, but it creates another – more inexperience.

The Turkish military has not been heavily involved in a major campaign since it pushed out the Greeks in the struggle for independence in 1921. But by most accounts it suffered from bad organisational problems and poor training during the invasion of Cyprus in 1974.

With overwhelming air and naval support, 60,000 men and 75 tanks, the Turkish force took uncomfortably long to make its dispositions and managed to sink one of its own destroyers.

Of more recent concern has been the Army's failure to prevent the escalation of a bitter Kurdish guerrilla insurgency campaign in south eastern Anatolia.

The Army has an estimated 200,000 troops in the region, over a quarter of which are deployed to deal with the guerrillas, but a policy of coercion and force in extremely difficult terrain has not proved successful.

Since the guerrilla war started in 1984 the deathtoll has risen to over 1,000, and is now running at more than 300 a year.

The Army now seems to have at least partly accepted that economic development in an extremely backward region and the use of more professional, specially trained full-time police commando and gendarmerie units, may yield better results.

In time it may also come to accept that democracy is a delicate flower that grows only slowly and with difficulty, and that the solution is not simply to pull out the roots and start again when things go wrong.

Richard Cowper


Military presence: a sentry at the Ataturk mausoleum

Defence industries

A necessary overhaul

IT IS ironic that Turkey, in the front line of the West's defence system, is militarily the least well equipped of the Nato countries. For years the armed forces have had to rely on handouts of used equipment from Turkey's allies. That situation will change dramatically in the next few years as an £8bn modernisation programme gathers momentum.

Almost all the new equipment – including aircraft, warships, armoured vehicles, radar, military communications and munitions – is due to be produced in Turkey. While the Turkish armaments industry is long-established, until recently, apart from specific projects, the country lacked a sustained defence industries investment programme. Now the aim is to give local armaments production more depth to keep pace with changing technology.

The size of the re-equipment programmes of the armed services is reflected in their numbers of personnel – 542,000 in the army, 55,000 in the navy, 57,000 in the air force and 125,000 in the para-military gendarmerie.

An indication of the ambitious scope of future local production is the participation of leading local military electronics concern Aselsan and munitions producer Makina & Kemya Endustri in a European consortium linking West Germany, the Netherlands and Turkey to produce US Stinger missiles. Aselsan is also investing in a £15m plant to make electronic guidance systems for the missiles, 4,800 of whichwill be manufactured for the Turkish armed forces.

The most complex and expensive defence manufacturing programme yet attempted is the production of F-16 fighter aircraft at a purpose-built complex at Murted near Ankara. Some 160 F-16s are to be produced for the Turkish air force over the next six years. Parts of the aircraft's General Electric F110 engine and its Westinghouse radar are also being produced in Turkey.

General Dynamics, the F-16 designer and co-producer in Turkey, has also committed itself to programmes directly and indirectly to offset the $4.2bn cost of the aircraft production programme. Part of the direct offset involves fuselages and wings being produced for the US air force's own F-16 procurement programme. Indirect offsets include shareholdings in new hotel developments though progress on other planned industrial projects is believed to be slower than anticipated.

According to Mr Jerry R. Jones, who managed General Dynamics F-16 co-production programmes in Europe and is managing director of the US-Turkish joint venture at Murted: "We are trying to find joint ventures in Turkey which will produce items we can export and we will get a return on our investment. So both sides will profit in the end."

In spite of the now general insistence on almost total offset provisions in new contracts, there is no shortage of Western firms seeking to enter into joint venture deals.

A tender call by the Defence Industry Development and Support Administration (Dida) this year, calling for a programme to produce 720 helicopters in Turkey, has drawn bids from the US companies Sikorsky and Bell Helicopter Textron, which is already involved in local assembly of Cobra helicopters, and West Germany's Messerschmitt-Boelkow-Blohm, France's Aerospatiale, the UK's Westland Helicopters and Italy's Agusta.

Final negotiations are also under way with the FMC Corporation of the US, in a joint venture with the local Nurol company, to manufacture some 1,500 armoured fighting vehicles. The contract, valued at more than £500m, is expected to include a substantial offset agreement covering 70 per cent of the cost as well as a loan covering half the project cost.

Dida, the chosen vehicle for stimulating industrial development in the defence sector, is playing a key role in all negotiations involving foreign participation. Set up in 1985 with exemption from Turkey's general accounting and bidding laws, Dida has a wide scope for manoeuvre as well as a brief to provide long-term orders, procurement guarantees, advance payments, investment credit and support research and development.

Several projects are in the pipeline. An early decision is anticipated on the choice of a high frequency single side band ground communications system for the Turkish army. Vying for the possible £100m-plus contract are three companies: West Germany's Siemens and the UK's Plessey and Marconi Communications Systems.

The worst fear of foreign companies competing for contracts in Turkey is that Dida will demand a re-bid, cancelling out months and often years of work. An order for a national radar control network is in the course of a fourth round of bids. This has followed the abrupt decision last July not to award a contract to France's Thomson-CSF which had submitted the lowest bid and been supported by France's Foreign Trade Minister Michel Noir during a visit to Turkey.

The exasperation of the French at the *volte-face* was shared by many others bidding for work. Nevertheless, the market remains attractive and defence manufacturers are among the more resilient of industrial species. Thomson-CSF is again among the hopefuls bidding for the contract alongwith other previous bidders, including Italy's Selenia, Hughes Ground Systems Group of the US, the UK's Marconi Radar Systems and two newcomers, Japan's NEC Corporation and Toshiba.

Contracts in Turkey's defence market remain elusive but the long-term potential, particularly when export possibilities are taken into account, remains enormous. Offset agreements are providing Turkey with export outlets via foreign partners who may contact to purchase parts, sub-assemblies or even complete products for their markets outside Turkey.

A Turkish production base may also open up markets elsewhere for joint ventures. However, given the sophisticated types of equipment, based on Western licences, that the defence sector is being encouraged to produce, it seems unlikely that agreement on sales outside the Nato area will be easily obtained. Whatever the commercial considerations, Turkey's armed forces at the end of the day are certainly due to get a much needed overhaul of equipment, becoming a military establishment based, like their Nato counterparts, on technology, rather than mere numbers.

Robert Bailey

Many new construction schemes now seem to be in doubt

Market facing contraction

THE TURKISH construction industry faces its toughest year since the end of the last decade when it burst on to the world market in the wake of the second oil shock.

As the Middle East boom began to turn sour in 1984 a fast-expanding domestic market more than picked up the slack. Last year heavy election spending by the Government brought a windfall to many Turkish construction companies.

But now the spending spree is over and the local market seems likely to face a sizeable contraction as Mr Turgut Ozal, the Prime Minister, screws down the lid in an effort to bring some order back into an economy threatening to go out of control.

The Contractors Association of Turkey is beginning to talk in terms of a shake-out and expects the industry's real volume of work to decline by up to 30 per cent over the next 12 months with a potential loss of 200,000 to 300,000 jobs out of an industry total estimated at about 1m.

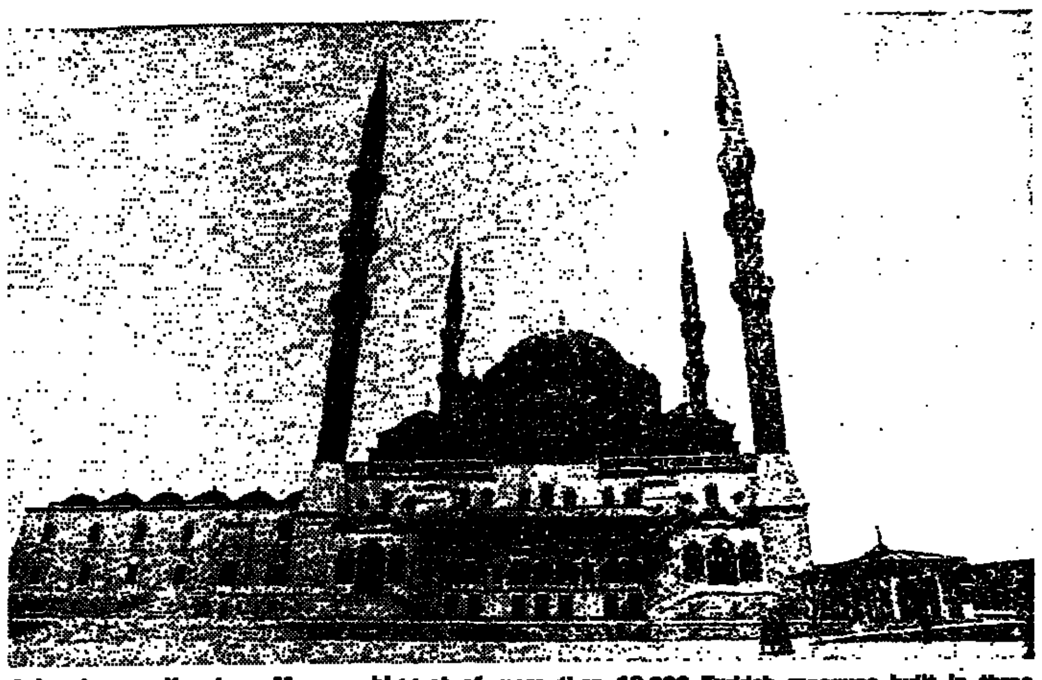
Says Mr Cemil Cudi Eke, Vice-chairman of the association: "Last year's was an election economy. Many projects were started which were not in the original plan: highways, farm programmes and irrigation projects.

"With inflation soaring and debt indicators at worrying levels, the Government is now having to adopt harsh measures. I don't think there will be a drastic shake-out, but there are very tough times ahead."

There is some disagreement as to just when and how deep the downturn will be. Everyone is agreed that there will be few new contract awards, but much depends on whether the Government will provide the finance for all projects already signed or whether it will seek to postpone a significant number.

With labour and political unrest growing, some construction industry chiefs argue that Mr Ozal may be forced to curtail his investment clampdown.

Large projects already well under way, such as the south eastern Anatolian dam project, are likely to go ahead, albeit with local contractors suffering even longer payment delays. But new schemes such as a metro system for Ankara and Istanbul are not likely to see the light of day, and there are even serious doubts over prestige political contracts such as the the third Bosporous bridge.



Ankara's new Kocatepe Mosque, biggest of more than 10,000 Turkish mosques built in three decades

Mr Teoman Baykal, until recently an advisor to the Minister for Housing and Public Works, believes the Government is attempting to "keep as low an investment in the construction sector" this year as is possible. A number of projects still in the early stages could well be postponed, he says.

"The Ministry's aim is to finish those contracts nearing completion, and it is now looking at others which need to be axed," he says.

The outlook for the domestic construction industry is distinctly gloomy but Turkish contractors struggling to maintain momentum abroad seem set to receive a small filip from a new client – the Soviet Union.

As Turkey's gas imports from the Soviet pipeline (already built) increase, so do its obligations under a barter agreement which specifies that about 70 per cent of the gas will be paid for in Turkish goods and contracting services.

Natural gas started flowing in 1987 and according to the agreement Turkey is due to take about 2bn cubic metres this year, worth an estimated $200m, rising steadily thereafter to about 6bn cubic meters by 1992.

Foreign contracts won by Turkish companies ($m)

Country	1986	1985	1984	1983	1982
Libya	609	–	92	398	1,067
Iraq	801	268	–	79	224
Saudi Arabia	5	387	442	823	2,172
Others	18	83	201	152	61
Total	1,433	736	735	1,452	3,524

Source: Turkish Contractors Association

Turkish construction companies are currently at various stages of negotiation with the Soviet authorities on 10 projects, many of them hotels, likely to be worth about $600m.

According to the Turkish contractors association, two hotel projects in the Black Sea and Caspian, worth about $100m, have already been initialled and work should start this year. Two others - renovation of a Moscow shopping centre and a new 1,000-bed hospital - could also be initialled soon.

A slower than planned gas take-off by Turkey due to downstream infrastructural delays and the general difficulties of managing a potentially fast-expanding trade relationship between two countries which have long viewed each other with hostility may dampen some of the early enthusiasm.

But with little other work about abroad there seems no reason why job-hungry Turkish contractors should not carve themselves out a niche worth $100m to $150m a year in the Soviet Union over the coming years.

Apart from this and the notable exception of Libya, the potential for Turkey winning new contracts in overseas markets seems almost to have dried up. Even the once mighty Saudi Arabian market has petered out.

In the early 1980s Turkish companies won jobs in almost a dozen, mostly Middle Eastern, countries reaching a peak in 1982 of $5.5bn worth of new contracts. By 1985 this had sunk to about $750m.

In late 1986 the signing of a $1.5bn dam project in Iraq, won jointly by Enka and a Yugoslavian company, helped boost the new contract total for the year to over $1.4bn. But payment problems with Baghdad and Iranian air attacks means that this giant scheme, due to be finished in 1992, may progress very slowly.

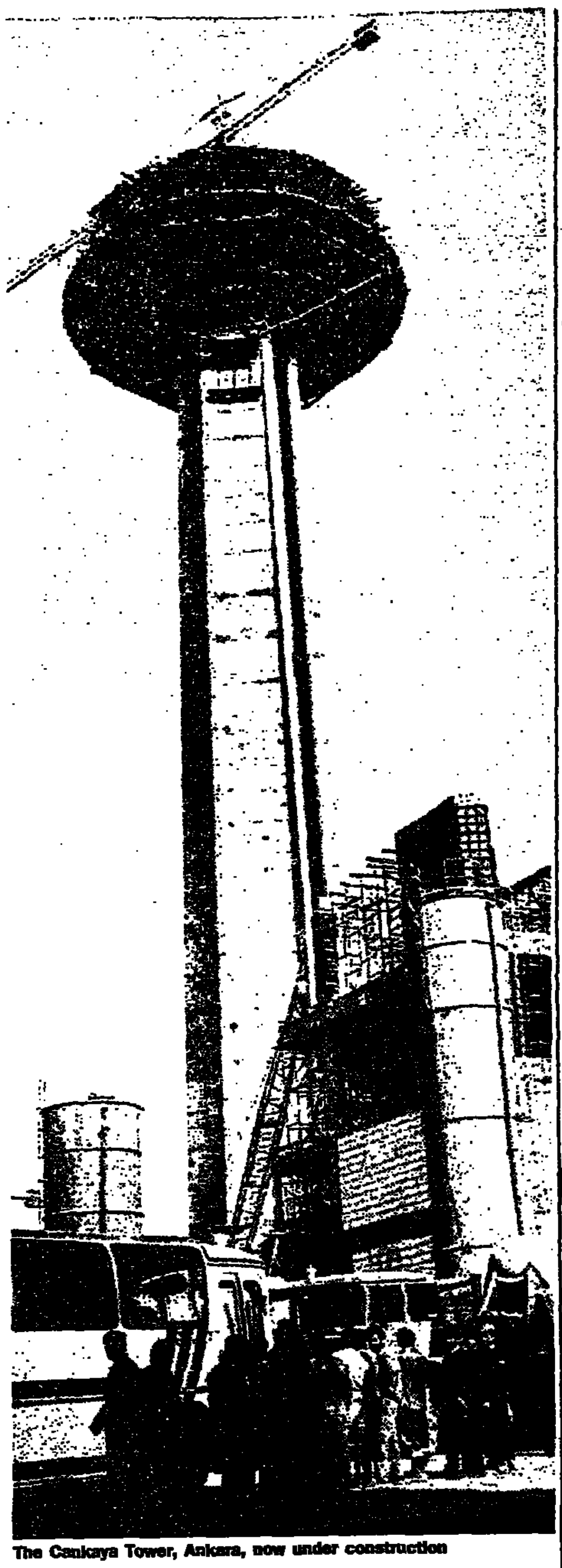
The Libyan market, though littered with potential pitfalls, looks a little more hopeful. According to Mr Nejat Gul, the Enka director in charge of the Libyan market, most of the Europeans have gone leaving mainly the hardy Turks with a much larger slice of a reduced cake.

Turkey still has about 25 companies and 25,000 workers in the country - down from the 1982 peak of 130 companies and a labour force of around 100,000. Last year, according to the Contractor's Association, Libya topped Turkey's overseas construction league with new foreign contracts worth almost $400m.

In Libya, Turkish companies have clung on in a gruelling climate and a poor payments environment with a tenacity that has earnt them the title of Desert Rats.

Economic relations between the two countries are expected to expand at a faster pace following this month's trip by Mr Ozal to Tripoli and Turkish contractors, battling for survival in the face of a potential shake-out at home, may feel that even the highly-risky Libyan market is a worthwhile gamble.

Richard Cowper



The Cankaya Tower, Ankara, now under construction

Profile: Imren Aykut

Minister on side of the workers

THESE ARE difficult times for Turkey's new Labour Minister, Ms Imren Aykut, presently caught between increasingly strident union demands and a basically intransigent government.

Most people readily agree, however, that Turkey's first democratically-elected woman Cabinet Minister has made a difference in what were at best cool relations between the Government and the unions.

For the first time since 1980, the Government, the Turkish Confederation of Employers (TISK) and the Turkish Confederation of Workers (TURKIS) held a "summit" meeting to negotiate long-awaited changes in the labour law. Though termed "cosmetic" by many unionists, most of the changes decided upon by the Government have come about largely through Ms Aykut's efforts.

Often accused by Motherland Party hardliners of being on the side of the workers, Imren Aykut has no qualms about stating that indeed she is: "One can say that I am on the side of the workers. As a human being I am first and foremost on the side of the defenseless and weak and my professional life has largely been directed towards improving their lot."

With a union career spanning more than two decades Imren Aykut, now 47, is regarded as modern Turkey's best-equipped Labour Minister to date. A native of the southern Turkish city of Adana, she graduated from Istanbul University's Faculty of Economics in 1964 and then studied arbitration and mediation methods in the United States.

Ms Aykut also specialised in worker-employer relations at Oxford University and later received a Phd. in Economics from Istanbul University.

With 15 years of experience in the workers' unions and seven years as the Secretary General of the Paper Industry Employers's Syndicate, Ms Aykut has been on both sides of the negotiating table and thus has a well-balanced view of the issues, according to labour sources.

Ms Aykut, who says "During my school years and throughout my professional life I never considered entering politics," found herself in their midst suddenly in 1981, when she was nominated a member of Turkey's consultative assembly formed after the military takeover in 1980.

She was later elected to Parliament on the ticket of Turgut Sunalp's now defunct National Democracy Party in the 1983 election. Following the NDP's dissolution, she joined Prime Minister Ozal's Motherland Party and won a seat in parliament in the 1987 election.

Imren Aykut: a reputation for being tough

Her appointment as Labour Minister was widely welcomed within union circles. With a reputation for being tough, the soft-spoken Ms Aykut has not yet though been able to extract the expected amount of concessions from Mr Ozal. Following the announcement of the draft amendments to the labour law, the President of Turk-Is, Sevket Yilmaz, pronounced himself disillusioned with the results of the tripartite summit.

In fact cynics within the trade unions regard the recent dialogue with the Government as an attempt by Mr Ozal to fend off a wave of strikes before the ILO convention to be held in Geneva this June.

Following Turkey's application for full membership to the EC, the Ozal government is anxious to refurbish its image and the draft amendments now being made to the constitution cannot be cast aside as insignificant.

For example, students and clergy, at present barred from joining unions, will be able to do so under the provisions of the amendments, and workers will be free to assemble within the vicinity of their jobs during strikes and lockouts.

Ms Aykut, who says she has started a meaningful dialogue between the Government and employers and workers unions, believes that working conditions in Turkey are bound to improve. "Naturally there will be strikes and lockouts, but this is part of the democratic process," she adds.

Amberin Zaman

Trade unions

Pressures for change increasing

THE TURKISH government is coming under increasing pressure both at home and abroad to change restrictive labour legislation and raise minimum wages.

Under pressure from its rank-and-file members, particularly following the Government's austerity economic package on February 4, the main trade union confederation, Turk-Is, has planned a series of actions from meal boycotts to a general strike.

In the West, Turkey is in danger of being put on the International Labour Organisation's black list, with all its attendant penalties.

The option of a general strike, which would place the Government in a very difficult position, won great public support. The Government would be seriously embarrassed, because general strikes are banned under the constitution framed by the military in 1982. Large attendances at rallies in Sakarya and Adana – larger than Ministers of the ruling Motherland Party (ANAP) themselves could draw – alarmed the government sufficiently for Prime Minister Turgut Ozal eventually to seek a meeting with Turk-Is leader Mr Sevket Yilmaz.

During the meeting, Mr Yilmaz secured promises to improve labour legislation and to increase minimum wages.

The main reason for the Government's climb-down was the forthcoming ILO conference in Geneva next month – it had previously admitted that various restrictive laws were contrary to ILO principles. The Government had also promised the ILO in two separate letters that it would make the necessary changes in legislation to make it compatible with ILO requirements. Thanks to these letters, Turkey has been able to stay off the ILO black list so far.

But the ILO has not been impressed by the lack of progress last year, and in its 1987 report, it upbraided Turkey and called again for the necessary amendments. If the Government fails to implement them, it will be put on the black list backdated to 1987.

This would have serious ramifications within the EC, and for Turkey's full membership application, where workers' rights are a major stumbling block. Turkey's entry into the EC would face protests from all international trade union organisations if the Government fails to improve the lot of the country's workers.

Similarly, in the US, failure to bring standards up to ILO levels could in theory give grounds for the suspension of economic aid, and blacklisting by President Reagan's administration.

The Ozal government therefore needs to arrive in Geneva with its credibility intact. Earlier this year, on a visit to Switzerland, Mr Ozal himself took along six professors in his delegation in order to make a good impression during talks with ILO officials.

The Government is putting pressure on Turk-Is to soften its criticism during the ILO conference. And by making very limited changes in the labour laws, it hopes to go to the conference showing good faith, at least.

Turk-Is temporarily appears to have backed off, giving the government some breathing space. But in a country where attitudes change overnight, it is very difficult to say whether the minor changes – which do nothing for workers' basic rights – and the nominal increase in wages will allow the Government to breathe freely in the long-term or save it from having to account for itself to the ILO.

It is also very difficult to say whether the union movement will now tamper its actions.

Much depends on the Turk-Is leadership. The union is a moderate survivor from the emasculation of the labour movement by the military following the coup in 1980.

One of the first decisions taken by the military government was to stop all union activities during its rule. The second most important trade union, the left-wing DISC, was dissolved and its leaders arrested.

While it provided Ministers for the ruling Motherland Party (ANAP) on the return to civilian rule in 1983, Turk-Is also stood by while the DISC leadership was tried, but claimed at the same time to be against the purge of the labour movement.

Turk-Is officials said they were in favour of a dialogue with the military government, to prevent Turk-Is from being shut down, and to safeguard workers' rights until the return of civilian government.

Throughout the military period, Turk-Is in fact consistently opposed restrictions in new legislation and the 1982 constitution, but was able only to secure the modification of two minor clauses.

When civilian government returned in late 1983, DISC was kept closed, even though no final sentence had been handed down on its leaders. Former DISC members were therefore forced either to transfer to Turk-Is or to other independent unions to make use of their collective bargaining rights.

Important political changes took place too in Turk-Is, which by now was the only confederation in a position to offer some protection for workers' rights. But no real changes took place in Turk-Is' administration. Eventually, the rank and file began to protest ever more vigorously as each successive agreement between union and employers proved disappointing.

The protests grew as attempts to persuade the Government to change the constitution failed, and the rank and file adopted more radical measures. These included open-air meetings and protest marches, and outright opposition to ANAP during the September 6 referendum lifting the ban on pre-1980 politicians from returning to active politics.

As a result, Turk-Is, which in the past had managed to get along with most governments, drew up a policy of opposing the Government – but not consistently. The trend of recent developments, despite a rapprochement between Turk-Is and the Government, points in the long run instead to a deadlock between ANAP and the workers.

Sukran Ketenci

Hit by inflation at home and quotas abroad

Pressures on textiles threaten shakeout

PUMMELLED BETWEEN inflation at home and quotas abroad, the Turkish textile industry faces a critical year.

Growing difficulties in the local market mean that, as one general manager puts it, "the choice is export or expire." Yet already more than half of Turkey's textile output is shipped abroad and protectionist pressures are mounting in the country's key export markets.

The figures for 1987 show the problem. Turkish exports of textiles and clothing rose 46.3 per cent to $2.7bn. Of this total, $1.9bn or 70 per cent went to the European Community, in particular to West Germany. A further $268m or 10 per cent went to the US.

The decibel count of quota rumblings is rising. In the EC, where Turkey has displaced Hong Kong as the largest outside textile supplier, there is pressure to expand the range of products on which quotas are applied

The main increases were in items for which there is still no effective EEC quota system, for example cotton knitted goods, exports of which rose 98 per cent to $348m last year.

This year textile exports have continued to flourish, with a 37 per cent increase to $855m in the first three months and the EC continuing to take the lion's share.

In the face of such results, it hardly surprising that the decibel count of quota rumblings is rising. In the EC, where Turkey has displaced Hong Kong as the largest outside textile supplier, there is pressure to expand the range of products on which quotas are applied.

The same situation has developed in the US, with Turkey's arguments that its products account for less than 2 per cent of the US market cutting little ice.

At home, the boom area has been ready wear. There are a few large units such as Berdan, IGS, Penyeluks, UKI and Utas, but the dynamism of this section of the industry comes from the small *ateliers* – sweatshops with up to 20 *machines using uninsured*, non-union labour.

It is these which have been meeting the orders of the numerous chain stores and boutiques which have been visiting Turkey seeking alternatives to Hong Kong suppliers. Here, quality control remains a problem, particularly for goods sourced from the *ateliers* often requiring buyers *to* send down supervisory staff.

But the advantages of Turkey – ease of access and speed of despatch on a door-to-door lorry – have been enough for the country to win clients. Indeed, a recent phenomenon is the arrival in Istanbul of Hong Kong clothing factory owners keen to diversify their production base.

A more mixed picture is evident in spinning and weaving. The decade-long growth of the installed spindle park is beginning to level off.

The last boom occurred when several hundred thousand spindles were put in ahead of the boost to cotton production expected when the South East Anatolian project begins to irrigate that area. This project will lead to an increase in the country's cotton output from its present 500,000 tonnes annually to around 800,000 tonnes.

There has also been a large increase in weaving capacity and, importantly, in investment in the next stage of production, that is dyeing and finishing units. All this augurs well for the future, with Turkey having laid the basis of an integrated textile industry.

However, 1988 could be critical in that a number of Turkish companies have been investing heavily to modernise their plant – with success, it must be said, as the level of technology in the better Turkish companies tends to catch the European visitor by surprise. But the downside is that such companies have been heavily extended by the unexpected severity of the tightening of the economy in the past two months.

Working capital now costs 8-9 per cent *a month* and at least two of the market leaders have found *their* warehouses filling up just at the time that they needed sales to handle their finance costs.

"Financing charges suck up 25 *per cent of our sales revenue*," says another plant's owner. Some of the banks are warning that, in a limited number of cases, bail-outs may be necessary.

For their part, the large industrialists are united in their criticism of the present situation. "The only way to avoid a crisis is for the Government to bring inflation under control," says Mr Osman Boyner, president of the large and buoyant Akkok textile group.

Like other industrialists, he complains about the level of interest rates. This is not only causing the wholesalers of Anatolia to cut their orders but is mak*ing export orders expensive to* fulfil.

Thus, it is not surprising that a number of the industry professionals are less confident than they have been for some time. "The overall figures are fine, but there is going to be a major shake-out of companies which have not invested in quality," says one prominent industry figure.

Meanwhile, bodies like the Turkish Clothing Industry Association are stressing the need for raising standards

David Tonge

Spinning yarn in the Bozkurt textiles factory outside Istanbul

Iron and steel

State producers stage revival

WHILE MOST of the expansion in the Turkish iron and steel industry continues to occur in the private sector, the once moribund State Economic Enterprises (SEEs) are beginning to show signs of revival.

Spurred by Turkey's application for full membership to the EC last year, the state-owned Iron and Steel Board and the semi-public Eregli Iron and Steel Works (Erdemir) are pressing ahead with a major modernisation and expansion programme to increase their competitiveness both at home and abroad.

Although total production is still not sufficient to meet domestic demand, the public sector is becoming increasingly export oriented, in line with the Government's general shift away from imports substitution. As a result, while production increases and cost efficiency remain top priorities, quality control to ensure international competitiveness has become one of the main targets of the industry, according to Mr Celal Kurtulus, Erdemir board chairman.

"Considering that Japan, the world's second largest steel producer, was Turkey's top customer last year, it's obvious that the quality of Turkish iron and steel products has vastly improved."

Exports, however, recorded only a modest 6 per cent increase last year – in spite of an 18 per cent rise in production. The sluggish increase was due mainly to a fall-off in shipments to Iraq, formerly Turkey's second largest customer for iron and steel products.

Official sources say Turkey was forced to reduce shipments because of Iraq's inability to meet payments. But once the Iraq-Iran war ends, exports will pick up as the two countries start to rebuild their war-shattered economies.

The long-term objective of the industry is to break into the European market. "The stage of discussing competition and adjustment terms in preparation for EC entry has been reached," says Mr Kurtulus. In line with this goal, the Turk Demir Celik Isletmeleri (TDCI), the national iron and steel board, has launched major expansion and modernisation programmes at its two integrated plants in Karabuk and Iskenderun, combined costing $350m.

TDCI will prepare a master plan for long-term production targets for the Karabuk and Iskenderun complexes following a survey of domestic and foreign demand, says its deputy director-general, Mr Yunus Sirin. In the short term, plans for the Iskenderun mill call for an increase from its present annual capacity of 1.8m tonnes to 2.7m tonnes in 1989.

Erdemir, in which the state holds 61 per cent of the equity via TDCI, is also undergoing a major expansion programme to reach an output of 3m tonnes a year. Turkey's only flat-steel producer, Erdemir will not be able to meet national demand for flat steel products until a further expansion to 5.5m tonnes is implemented.

Private sector competitors appear unimpressed by the public sector's endeavours, however. Pointing to the fact that the state sector's share of total production is continuing to fall, they claim it still has a long way to go to catch up. This is borne out by the increase in private sector output from 658,000 tonnes in 1980 to 3.1m tonnes in 1987 – 45 per cent of total production.

The private sector is currently led by Cukurova Celik Endustrisi, Turkey's biggest arc-furnace. Cukurova executives concede that the export incentives, including preferential customs duties on imports of equipment and raw material, have greatly stimulated growth in the private steel industry. "In order to qualify for these incentives, we have to export 20 per cent of our output, which in turn means we have to step up production," one executive adds.

Most private producers readily admit that the domestic market is still more lucrative, on the strength of a government-sponsored boom in the construction of mass housing. Domestic long product output is expected to grow by as much as 10-20 per cent annually, while demand for flat products is maintaining growth rates of around 10 per cent annually.

According to official sources, this growth in consumption will continue to assure the public sector's share of the market as well. Mr Kurtulus points out that, with the Government's SEE privatisation programme – which includes TDCI – the distinction between the state and private sectors in the steel industry, as in other economic sectors, may cease to exist. He appears to welcome the prospect, wryly confiding that: "The state is not cut out for doing business."

Amberin Zaman

Spending on municipal redevelopment, in recent years a big source of demand in the economy, is under scrutiny

Central government may rein in the cities' gallop

"ISTANBUL is the biggest construction site in the world," declares Mr Bedrettin Dalan, the city's celebrated mayor, with a happy smile.

The sight of concrete being poured at almost every turn may irk the visitor seeking tranquil echoes of the past among the Ottoman mosques and palaces, but to Mr Dalan it denotes much-needed development for the hard-pressed inhabitants of Turkey's biggest city (population 7m) whose services until recently were woefully inadequate.

Mr Dalan has won considerable fame in Turkey for the changes he has wrought since his election in 1984, all done at breakneck speed compared with the bureaucratic snail's pace customary in the past.

New water supply systems mean chronic water shortages are no longer the agonising problem they were until very recently. A new city-wide sewage system is underway which has already resulted in a great improvement in the waters of the Golden Horn, the historic spur off the Bosporus whose stink was previously anything but golden. A second road bridge over the Bosporus – a soaring suspension link like the first – has been completed to help ease the city's hopelessly clogged traffic.

The transformation is impressive, however many doubts there may be that the development will end up rendering what was once chaotic bustle into teeth-grinding mayhem. In any case, Mr Dalan has plans for much more. He wants a third Bosporus Bridge, more associated road systems, a metro and even a road and rail tunnel under the Bosporus.

The mayor's infectious enthusiasm has undoubtedly had much to do with his achievements to date. But there are signs that it may not be enough to drive through the rest of his ambitious plans as they come into conflict with increasing concerns at government level in Ankara over the financing of the many expensive urban development projects, not just in Istanbul, but in Ankara, Izmir and virtually every other major city in the land.

Central government has begun to signal that city development spending, in recent years a big source of demand in the economy, will have to be curbed if growth is to be dampened in the interests of controlling rampant inflation. For this reason, a delay seems to have been imposed – although Mr Dalan strongly denies it – on the third Bosporus bridge and the huge motorway system associated with it, which will sweep through the European side of the city.

The rapid growth of urban development work was largely inspired by the same government that now apparently wants to rein it in. The Prime Minister, Mr Turgut Ozal, and his planners recognised after they came to power in 1983 that the surge in the urban population over the past two decades had long since overtaken the city infrastructures. The best known symptoms of this are the thousands of unplanned "gecekondu" (built at night) shanties that sprawl about the fringes of all the big cities.

The scale of the needs of the cities is illustrated in a 1986 study by Inbucon, an Istanbul research group, of municipal development in Turkey. Based on spending on an integrated development project for the south-eastern Cukorova region run by the State Planning Office, Inbucon estimated that, at June 1986 exchange rates, the national cost of tackling urban deficiency was $3.3bn.

It reckoned a further $460m was required annually to allow for population expansion. The total urban population of approaching 30m – now more than half the total population – is growing at a rate of nearly 5 per cent a year, fuelled in large part by large scale migration from the poor areas of the predominantly Kurdish east to the big cities.

Faced with this, the Government decided to channel new funds into the cities and at the same time free the municipal authorities to decide how the money should be spent. The relevant legislation went through in 1985.

Suddenly the municipalities found themselves with a degree of autonomy they had never known before, even in Ottoman times. Led by the example of Mr Dalan, they began to spend heavily. Since 1984, total municipal spending has leapt by more than five times. This year, it is expected to reach TL3,400bn, a 58 per cent rise over 1987.

Central government provides more than half of the funds, with the Iller (Provincial) Bank and the Mass Housing Fund supplying development credits. Increasingly, however, the municipalities are raising more of their own revenues, particularly since the Government transferred to them the collection of property taxes.

The evidence of the new spending is there to see in all cities, not just Istanbul. In Ankara, the water supply is greatly improved over two years ago when much of the city was blighted by prolonged water cuts. Road improvements and mass housing projects projects are under construction. In March, contracts were awarded for a $130m project to convert the city to use Soviet natural gas, to combat the city's wretched air pollution. In Izmir, on the Aegean, an ambitious sewage system, part funded by $175m from the World Bank, is being built which is intended to end endemic pollution in Izmir Bay.

Not all these projects go smoothly. To cite just two examples, there are reports of serious technical problems in the Izmir sewage plan; and Ankara citizens are near apoplexy over apparently endless reconstruction of a major street in the city which has disrupted traffic for more than a year. These may reflect a shortage of skills in the municipalities

While the cities remain, as Mr Dalan says, big construction sites, it is difficult to judge what they may be like when the spate of catch-up development is finished. But they are unlikely to get on top of their problems until the key question of population growth is dealt with. As a large part of this stems from migration from rural areas, much will depend on the necessarily centralised effort to slow these movements.

The policy is to make Istanbul, Izmir and Ankara the last-choice destinations of rural migrants through development in the rural areas – the Southern Anatolia dam project is the biggest example of this – and by diverting migrants to the smaller cities of Anatolia. But it will be hard to persuade footloose peasants that it is the streets of Kayseri, or Konya, that are paved with gold, not those of Istanbul.

Hugh Carnegy

Rush-hour crowds at Kizilay, in the centre of Ankara

Telecommunications

Rapid expansion in telephone lines

URGENT DEVELOPMENT of Turkey's ramshackle telecommunications system was an early priority for Mr Ozal's administration when it took office in 1983 with a mandate to revitalise the private sector and encourage an export-led economy.

Faced with the realisation that Turkey was needlessly cut off from international markets by a communications system not even on a par with its Balkan and Middle East neighbours, the Government decided to embark on a bold 10-year TL2,000bn modernisation programme, equivalent at that time to a £6bn commitment to spending on telecommunications.

Results have already been highly effective, and in some cases spectacular. The number of working telephones has increased 65 per cent from 1,673,000 five years ago to 2,770,000 at the beginning of 1988. Some 35 per cent of households in Istanbul have telephones, and what was an impossible backlog of subscriber applications in the major cities, stretching back in some cases 15 years, has been largely eradicated. The national average of homes with telephones is expected to rise from 15 per cent to 20 per cent by 1992.

The increase will by no means merely reflect urban development. By the end of last year every one of Turkey's rural communities had been linked to a telephone line. The achievement involving 36,000 villages, given the remoteness of much of the country and its land area which is three times the size of West Germany and the UK together, is remarkable.

The advent of reliable communications services is being felt at all levels of society, including government. According to Minister of State Adnan Kahveci, telecommunications development is helping to streamline bureaucracy, with data services such as facsimile linking government offices in the country's 67 provinces, speeding the exchange of essential paperwork.

Mr Kahveci, chief policy adviser to the Prime Minister, is one of 7,000 subscribers to the mobile telephone service established by Finland's Nokia Mobira two years ago. Some 100 base stations now provide 497 channels on main trunk routes encompassing Istanbul, Ankara, Izmir, Antalya, Mersin and as far east as Antakya.

Other high profile investments are possible. According to Mr Kahveci, a communications satellite is being considered to provide television services, including new educational TV channels and a pay TV channel.

The impact of improved telecommunications is, however, seen most immediately in business, particularly the banking sector. There are few financial institutions in either the private or public sectors that do not have sizeable communications technology investment programmes. Reliable telephone connections have given banks the opportunity to exploit computer technology to link branches, both domestic and overseas, and to introduce electronic services such as automated teller machines on an increasing scale.

It is calculated that the number of telephones in Turkey could rise tenfold

A major factor in the speedy implementation of the Government's huge telecommunications programme has been the willingness of the authorities to allow private contractors to undertake essential connection work. But of most significance has been the decision of Posts, Telegraph and Telephone (PTT) to embrace digital technology. This has given Turkey the opportunity to catch up with more advanced countries in a matter of years rather than decades and also without an expensive cut-over from an existing generation of equipment, given the country's lack of sustained investment in the past.

By the end of 1988 more than 40 per cent of all lines in Turkey will be served by digital exchanges. According to PTT director general Emin Baser, the aim is to add 1.2m lines a year to the system. The continuing large scale investment programme is stimulating a local telecommunications industry.

Local manufacturing provides the bulk of Turkey's exchange needs, though equipment is almost totally of foreign design. However, the domestic contribution to the manufacturing process is gradually changing from one of assembly to design and production. NETAS has designed its own products, including a semi-automatic rural exchange known as Elif and a range of PABXs which have found an export market as well as a large customer base in Turkey.

Three joint-venture companies, involving western companies, presently dominate the market, including NETAS which is the oldest. It was set up in 1967 with Canada's Northern Telecom company, and produces the latter's DMS-100 subscriber exchanges and DMS-200 trunk exchanges.

Teletas, like NETAS based near Istanbul, produces System 12 exchanges in conjunction with Belgium's Bell Manufacturing Company, an associate of France's Alcatel NV. Siemens is also planning to start local production of its EWSD digital exchanges. The West German company's decision follows the receipt of a £70m order for nine such exchanges from the Turkish PTT last October.

Competition for additional orders is likely to be increasingly intense in view of the Government's decision to reduce its role in manufacturing enterprises, and thereby presumably any interest in maintaining market shares for individual joint ventures.

Twenty-two per cent of a 40 per cent shareholding in Teletas was successfully offered to the public by the Government earlier this year, as part of its privatisation programme. A reduction in the state's 18 per cent holding in NETAS is also expected soon. Meanwhile, Cengiz Israfil, the former Morgan Guaranty vice president, brought back to Turkey two years ago to oversee privatisation moves, has been appointed to NETAS's board.

The Government's telecommunications investment programme, meanwhile, continues in full gear, though this pace is likely to be dictated to some extent by public spending targets in the present high inflation environment. Yet, as experience in other countries testifies, once a society becomes accustomed to a reliable telephone service, demand for services usually outpaces supply. Eventually, the number of telephones in Turkey could increase tenfold, the PTT says.

As Turkey's basic telecommunications infrastructure is overhauled so the possibility of introducing more sophisticated services grows. The type of services being actively considered include radio paging and integrated services digital network (ISDN) technology. Trials for ISDN, which allows voice and data traffic to be routed through a single line and exchange, are due to take place in the main cities of Istanbul, Ankara and Izmir this year. Bids for a packet switching network are also being evaluated at present.

Robert Bailey

Profile: Koc group

A diverse conglomerate looks west

KOC, one of Turkey's largest private industrial conglomerates, says it has finally bitten the bullet and decided to make a major assault on overseas markets.

The group consists of 116 companies and affiliates, and its activities range from vehicle, tractor and tyre production to textiles, meat production, banking, household appliances, construction and tourism.

But in recent years Koc has been under fire for failing to take full advantage of Mr Ozal's economic revolution which, since 1980, has opened Turkey to the world and fired many of the country's top companies to look abroad for rapid expansion.

According to Mr Ahmet Binbir, president of Koc's financial and foreign trade companies and a member of the managing board, last year the company put in place a mid-term strategy which aims to boost exports as a proportion of turnover from around 6 per cent in 1986 to over 20 per cent by 1992.

"It is a fundamental change of heart. Until very recently Koc was local market-oriented. The Ozal government has turned our face to the West and it has given us a drive to go for foreign markets. It's never too late," says Mr Binbir.

Koc is looking to textiles, agro-industries, household appliances, automotive components, commercial vehicles and tourism to lead the export drive – all areas where it has a strong position in the domestic market.

This, coupled with an extremely healthy financial base, should give Koc a reasonable start. But given the company's product spread and the continuing attractions of a lucrative domestic market some analysts question whether Koc is really about to change its spots.

Exports have remained at around the same percentage of turnover for many years. Margins at home continue to prove more attractive and in 1987 the company made a healthy after-tax profit of $240m, up from $90m the year before.

Many of the areas in which the company hopes to do well are already the subject of stiff competition from countries in the Far East

Many of the areas in which the company hopes to do well are already the subject of stiff competition from countries such as Hong Kong (textiles), South Korea (appliances, textiles and automobiles) and China (textiles). Automotive exports, in particular, could prove a potential minefield.

Mr Necati Arikan, the company's senior vice-president, shrugs off some of these concerns: "The domestic economy is slowing. We are looking forward to the time when we join the EC. We will take a step-by-step approach, keeping our eyes on marketing, servicing and acquisitions."

He does not expect quotas in the US or elsewhere to hit the group's drive to boost textile and apparel exports in the short term, though he concedes that the mid-term outlook is far from certain. "We will escape for a while, but ultimately measures that might be taken in the US could hurt," he says.

The company is optimistic about the prospects for overseas sales of white goods. With 60 per cent of Turkey's rapidly growing domestic market in cookers, refrigerators and washing machines already in the bag, Koc feels it is ready to go overseas.

Turkey's largest private company, however, is little known abroad. To overcome this problem it is actively looking to buy well-known brand names in the UK and Europe. It is also considering plans to set up a European servicing network to back up its sales drive.

Its main market for home appliances so far has been in the Middle East and North Africa, but it has recently started selling gas cookers to France and has just won a deal to supply 10,000 refrigerators to China.

Spearheading the drive will be RAM, the group's export arm, which Koc hopes one day will develop into a fully-fledged Japanese-style trading house. Set up in 1970, the company has been a comparatively sluggish starter in spite of the fact that it handles the trade of 200 Turkish companies. It has offices in just half a dozen countries. This year it will open up in Paris and a branch in London is planned soon.

To illustrate the seriousness with which Koc is now taking overseas markets Mr Binbir points to the sharp jump in exports in 1987 – the first full year of the group's new export strategy. Koc saw overseas sales jump by a healthy 42 per cent from $214m in 1986 to $304.5m. But with the domestic economy growing at a rapid election year pace in 1987 total group turnover rose at about the same rate from $3.5bn to $4.9bn. As a proportion of group sales therefore exports remained at the 6 per cent level.

Textiles and apparel led the group's export list (28 per cent), mainly to Europe, the US and Japan. This was closely followed by iron and steel products (16 per cent), a large proportion of which went, perhaps surprisingly, to Japan.

As the government applies the brakes this year to an economy threatening to veer out of control Koc's new strategy may prove to be well-timed. Domestic growth could fall below 5 per cent in 1988 and in line with this Mr Tevfik Altinok, Koc's executive vice-president in charge of finance, expects to see the group's exports increase at more than double the rate of domestic sales. "This year I'm anticipating a 25 per cent increase in exports in real terms and a 12 to 15 per cent growth in domestic sales," he says.

Such differential growth rates are still not enough to put the group on line to achieve its 1992 target of 20-25 per cent exports as a proportion of total sales. If Mr Altinok's forecasts for 1988 are correct, sales abroad would still account for little more than 7 per cent of the group's total turnover.

The company is not to be shaken: "This is excellent preparation for the time when we join the EC. We are now undertaking a major review of what is needed to adapt to EC conditions. We fully expect that by the end of the century to have become a part of Europe. By then we need to be fully competitive, ready to hold our own," says Mr Altinok.

Richard Cowper

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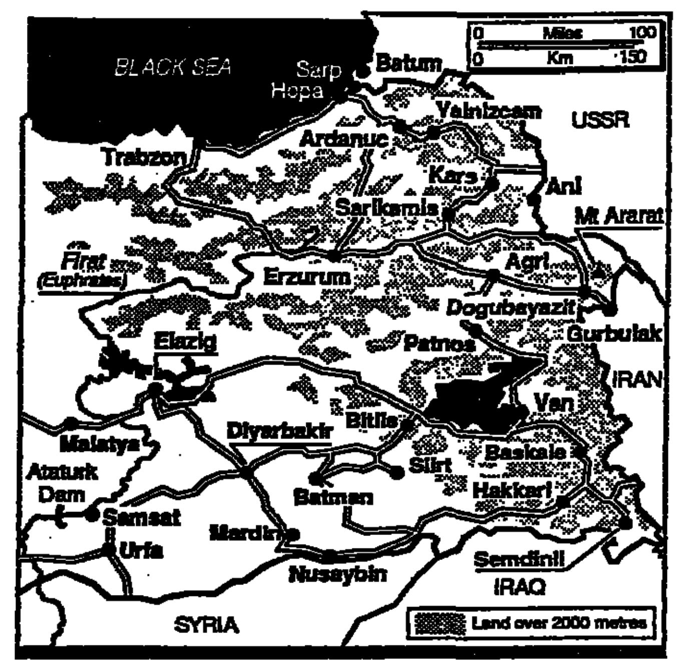
Eastern Anatolia

A home to eagles and guerillas



INVASION ROUTE and battleground for more than a dozen conquerors over the last two thousand years, the wild mountains and plains of Eastern Anatolia still resound to the sounds of men at arms.

Nato's easternmost bulwark against the mighty armies of the Soviet Union, potential long-stop against Ayatollah Khomeini's fanatical hordes and scene of a small but bitter insurgency by *Kurdish guerrillas, the region* offers the perfect training ground for more than half of Turkey's 800,000-strong armed forces.

Though the region has been at peace for the most part for the last 65 years, a trip through Eastern Anatolia today nevertheless leaves one with the abiding impression of travelling through a *giant* military camp.

The garrison town and Nato airbase of Erzerum in the north — captured *twice* by the Russians in the 19th century and again in 1916 — is packed with conscripts and provides a home to a squadron of F4 fighter aircraft.

In the distance lies the mountain pass of Sarikamis — a reminder of how long and bitter are the winters in this part of Anatolia. It was there in 1915 that 78,000 Turkish troops led by Enver Pasha perished in the winter snows fighting the Russians.

The snow lies on the less than fertile plains from October until April, cutting off many villages during months when the temperature can fall to minus 40 degrees.

Further east still at Sarp, Kars and Ani — close to the Soviet Union, but at a respectful distance from the border — the smatter of small arms fire and the dull thud of tank and artillery practice rounds have become as much an accepted part of daily life as the endless flocks of sheep herded by semi-nomadic Kurds and Yuruks.

At least one town in this sensitive border region, however, *is* hoping for a Russian invasion. The small Black Sea port of Hopa is looking to next month's opening of the Sarp border gate with the Soviet Union, just 20km away, to revitalise its local economy.

Over the last two years Hopa, like many other towns in Eastern Anatolia, has suffered from a sharp fall off in the transit trade with Iran. The town, which has a small local military presence and is now lucky to receive more than one ship a month in its port, is littered with the detritus of international freight lorries.

Its hotels are empty, a dozen or more of its companies have ceased trading, and several hundred drivers, waiters, shop assistants and mechanics have been put out of work.

The only new jobs that have *come its way in recent times* have been for the guarding of a large warehouse of several thousand tonnes of tea — contaminated by nuclear fall-out from the Chernobyl disaster.

Now the town hopes that one of Turkey's longest-standing enemies will come to its rescue as a result of last month's agreement between Moscow and Ankara to boost trade and open for the first time in many decades a direct land border link between the two countries.

First main stop on the only road — still being constructed — into Turkey from Russia will be Hopa.

No one has a clear idea of just how much freight will come its way, but the port is being expanded and townspeople point to the multi-million dollar barter agreement under which Soviet gas is being exchanged for Turkish goods and services. Perhaps over-optimistically, some of them are also expecting a large influx of Soviet tourists.

One hundred and fifty miles south under the shadow of snow-capped Ararat, at 5,165 metres Turkey's highest mountain, cross-border trade and a large military presence also provide the main source of wealth to the town of Dogubayazit.

About 35km from Gurbulak, the only border crossing with Iran still open, Dogubayazit *still* thrives on a mixture of international trade and local smuggling — though the number of lorries passing through has fallen dramatically from the 5,000 or so a day common just three years ago.

Outside the town beneath the walls of Isak Pasa Sarayi, a magnificent Kurdish fortress, puffs of smoke rise in the clear spring sun as the plain resounds to the sound of artillery. A large army camp, home to a mechanised armour division, bristles with tanks lined up in rows, their guns facing Iran.

Not that Ankara expects an invasion from this quarter. The 454km long border with Iran is identical to the one established in the 17th century and Turkey's leaders have evolved a working relationship with the regime of Ayatollah Khomeini.

But Turkey's military establishment — perhaps casting a careful glance back to Ottoman times when the Persians along with the Russians were the main enemy — is highly conscious of its duty to protect the Republic's borders.

Of more immediate concern perhaps is the rapid growth in heroine smuggling across the Iranian border. Last year 1,300 kg of heroine was seized by the authorities in Turkey — triple the amount captured in 1986.

Experts say this probably represents less than 10 per cent of the amount getting through. According to one account, 70 per cent of the heroine entering the UK follows this route.

Few doubt *that* in Eastern Anatolia it is a growth industry. About 20 per cent of the cash economy of the city of Van, the old Armenian capital on the edge of Turkey's largest lake, is believed to be directly related to drug smuggling.

Until a recent crackdown by Turkish drug enforcement officers, Baskale, further south and closer to the border, was said to be the heroine capital of Turkey. Now much of it is believed to find its way to Diyabakir, along with Erzerum the other great city, Nato airbase and garrison town of Eastern Anatolia.

Diyabakir is an ancient settlement *on the banks of the Tigris,* which has been fought over for generations by Urartians, Assyrians, Persians, Romans, Arabs and Ottomans. Today it is the centre of military operations against the Marxist Kurdish Workers Party (PKK), which is fighting a bloody and often fratricidal guerrilla campaign for an independent Kurdish state.

Ankara believes that to grant the Kurds any recognition would simply result in a spiral of increasing demands and violence

A tour through the troubled region: from mountainous Semdinli in the far south east (wedged in by Iraq on one side, Iran on the other), to Siirt, north of the border with Syria and the capital of Diyabakir to the west, is to travel through classic guerrilla country.

The valleys and plains are dotted with army camps, gendarmerie checkpoints and military airports, while the hills and mountains, rising in places such as Hakkari to over 14,000 feet, offer summer grazing for Kurdish nomads with their countless flocks of sheep and provide a home to eagles and guerrillas alike.

The security forces have upwards of 55,000 men deployed against about 1,000 PKK guerrillas, but the evidence on the ground suggests it is a battle the government may not be able to win by force of arms alone.

Through a mixture of terror and playing up historical grievances the PKK attracts support from a significant proportion of the local population.

In the last few years the government has responded with a twin policy of military might and economic investment in roads, electricity and irrigation. But on political, ethnic or cultural issues it has been unwilling to compromise.

The Kurdish language is officially banned and although Turkey is home to about half of the world's 20m Kurds, officials claim they do not exist as an ethnic group.

Mr Aydin Arslan, deputy governor of the 11 south eastern provinces still under a state of emergency, says: "There is no Kurdish race. It is proven scientifically that they are one of the branches of the Turkish race."

Kurds are not allowed to form *any ethnic or cultural* groups and Ankara believes that to grant them any such recognition would simply result in a spiral of increasing demands and violence.

Meanwhile, a military solution appears as far away as ever. If the local terrain is not hiding place enough the guerrillas can retreat to camps in Iran, Iraq and Syria. The Army, though better trained and equipped to deal with the problem than in 1984 when the PKK launched the insurgency, has so far been unable to prevent the death toll from rising.

The PKK started its 1988 campaign at the end of March, as the winter snows began to give way to spring. Since then almost 100 people have been killed, taking the toll in this bloody four-year insurgency to more than 1,000, and ensuring for yet another year that peace will elude the wildest and perhaps most beautiful part of Turkey.

Richard Cowper

Black Sea region

Ethnic diversity and economic productivity

SCRATCH MOST Turks and you will find someone who knows next to nothing about the country's Black Sea coast, apart from such general notions that it is drenched with rain, populated by the Laz, produces tea, and that everyone eats anchovies all day.

This is strange indeed, in that the Black Sea region, stretching some 1,100 kilometres from the Bulgarian border in the West to the Soviet frontier in the East, is scenically one of the country's hidden treasures. It is also a region of surprising ethnic diversity, and arguably the most economically productive part of the country.

The Black Sea coast is the most densely-populated region in Turkey, and possibly the best educated and commercially oriented, too: most construction companies in the country are owned by people from the area, as well as many of the largest transport companies.

The region can be divided essentially into three sub-units: the coal-mining city of Zonguldak and its steel-mill hinterland around Karabuk and Eregli; the hazel-nut growing region around the port cities of Samsun and Ordu; and the tea and towns of Trabzon and Rize in the East, where the largely undeserved reputation for heavy rain all along the coast is a reality.

The coastline itself consists of mile after mile of unsullied sand beaches, alternating with towering cliffs and cascading waterfalls, streams filled with trout and salmon, and, in the east, neat, green rows of tea.

Ethnically, the Black Sea coast is said to be inhabited by the Laz — a blond and blue-eyed race with roots in the ancient kingdom of Colchis, where Jason and his Argonauts came to make off with the Golden Fleece.

True Laz speakers — linguistically, Laz is related to Georgian — only inhabit the coastal towns of the far-eastern tip.

The hub of the western Black Sea is Zonguldak, a city quite literally built on top of Turkey's largest coal mine. Although this is a working-class area, the workers are the highest paid in Turkey — TL450,000 a month for a rock-face worker, against the national average of less than half that in other industries.

Although well managed, the mines operate at a consistent loss, due to antiquated machinery and the steeply inclined nature of the veins. Worked for over 40 years, the coal face is now some 600 metres below the Black Sea itself in places.

More than 3.5m tonnes of hard coal was produced in 1987, accounting for 40 per cent of Turkey's industrial needs, although the coal is not of an especially high quality. Its high ash content partially accounts for the chronic air pollution in Ankara and other cities during the winter.

Local people prepare anchovies 100 ways

Much of the coal is used at the nearby steelmills in Karabuk and Eregli, which produced 600,000 tonnes and 1.5m tonnes of steel in 1987 respectively.

The area is now slated for development to meet the needs of Turkish tourists, who are being pushed out of the more expensive resorts along the Aegean and the Mediterranean to make way for hard-cash carrying foreigners. Sinop, former capital of the Kings of Pontus of antiquity, has been the scene of much building.

Further to the east, Samsun and Ordu are essentially administrative and port cities. However, in their vicinity, and especially around the ancient city of Giresun, is Turkey's and the world's primary source of hazel-nuts.

A total 110,000 tonnes were produced in 1987, of which about 40 per cent were exported, earning about $390m in foreign exchange — a happy return to profitability after the Chernobyl disaster in the Soviet Union had dumped radioactive ash on the plantations in April 1986, just as the nuts were forming on their branches, essentially writing off the crop.

The magnitude of Chernobyl was brought home to every Turk from Hakkari to Izmir by the destruction of the 1986 tea crop. For a nation of tea drinkers — up to 20 cups a day is common — the area from Trabzon to Hopa on the Soviet frontier has long been Turkey's primary tea-producing region. A total of 135,000 tonnes were produced in 1987, the bulk meeting local consumption.

Despite an announcement that the Soviet Union had bought up most of the contaminated stock, suspicions remain that large and small tea companies alike have secretly adulterated the new crop with the old — it is not unusual to meet former avid tea drinkers who will now only imbibe imported brands, or have abstained altogether.

The urban centre of the eastern Black Sea coast is Trabzon — the ancient Trebizond — a town with an extensive commercial history. Marco Polo shipped from here, and the fine mansions in the old city reflect the wealth the city enjoyed as recently as the late 19th century.

That wealth is returning rapidly, as witnessed by the phenomenal growth the city has seen during the past few years.

Laz-country proper starts to the east of Trabzon beyond Rize, the undisputed tea and anchovy capital of the country. Locals people maintain that they have 100 different ways of preparing the fish — the rest of the country maintains that the high consumption of anchovies is what makes a Laz a Laz.

Outside Rize, the countryside is unique in Turkey, breaking out in a riot of greens elsewhere seen only in tropical jungles. White-water streams rush down from the mountains, through valleys and gorges leading up to villages of double-storied wooden houses tucked into the valley walls.

Because of its location, in effect at the end of an immense cul-de-sac, few Turks — let alone foreigners — travel beyond Rize to the port of Hopa, or to the vertical world of Artvin behind it. This is Turkey's Switzerland, a region of Georgian churches hidden away in pine-covered valleys and foaming river gorges, which would be a rafting and canoeing centre anywhere else in the world.

Its veil of obscurity may be lifted soon, when the border post into the Soviet Union at Sarp is opened to allow traffic between the two countries.

Thomas Goltz

Tourism offers much, but caution is called for

Sun, sea, selectivity

TURKEY, rushing frantically to cash in on its immense but long-neglected attractions as a holiday destination, has crashed headlong into a dilemma.

The problem is this: Turkey is so far behind its Mediterranean neighbours in what it earns from tourism that it feels it has to move fast to get in on the act. That means building as fast as possible the hotels and all the associated facilities needed to accommodate large numbers of visitors.

But how do you do that while ensuring that the things that attracted the visitors in the first place – clean seas, beautiful scenery, uncrowded historical sites – are not ruined in the process?

It is a difficulty clearly identified by Mr Ali Nail Kubali, deputy chairman of Yasar Holding, a major Turkish industrial group with large interests in tourism. "We are at a very important stage. If we blow it, it will pass us by. We have to be very careful.

"I am afraid that we will not learn from the experience of Spain and other nations. I'm afraid we will crowd our coastlines with huge structures."

Take a trip in April to Marmaris, after Bodrum one of the country's best-known south-western resorts, and it is easy to see what Mr Kubali means.

To someone acquainted a few years ago with the harbour town, set in a gorgeous sheltered inlet *almost encircled by precipitous* pine-covered hills, the change in the place is remarkable. Before there was a small town at the head of the bay, with a few hotels established around the shore. Now there is a strip several miles long to the west of Marmaris of new hotels and holiday villages of varying quality and at varying stages of development.

The dreadful state of the roads around Marmaris and the racket and mess of construction work visible on every side should, of course, last only as long as it takes to get everything built (although that may be of little comfort to this year's visitors). However, the completed result may well end up looking very much like the concrete strip development Mr Kubali is anxious to avoid.

His anxieties are understandable. Yasar Holding has just opened the most distinguished hotel in the area, the five-star, 750-guest Altin Yunus (it means Golden Dolphin), a TL 12bn project to the west of Marmaris to add to its similarly named resort at Cesme on the Aegean coast. The Altin Yunus's upmarket customers are unlikely to be disappointed by the hotel. Its architecture is slab-like, but it occupies a stunning position and has every facility from cruise yachting to ritzy nightclubs.

It is the neighbours who might pose something of a long-term problem. Already, the Altin Yunus has had to construct its own sewage treatment plant and electricity generator because the local systems either do not exist or are unreliable. Nor can the hotel's owners control what the local municipality, which awards building licences, will allow to spring up around the Altin Yunus.

At this stage, a note of scale and perspective is worth injecting. Turkey is a big country which by any reckoning had *until recently a chronically* underdeveloped tourism industry. Despite a spate of building work to date, concentrated in the key Aegean and Mediterranean regions, taking in a sweep from around Izmir in the north, south through Bodrum and east through Marmaris to Antalya, the number of foreign visitors last year was only just above 2.8m.

That figure was a record and compares with 1.4m in 1981, the year after the most recent military coup. But it looks low in comparison with the 6m or so travelling annually to neighbouring Greece, a much smaller country.

Receipts from tourism in 1987 were also a record at $1.7bn, but again they look tiny when set against that earned by the Greeks. The Government's target of accommodating 5m tourists a year within five years is also hardly excessive, given the size of the country and the range of attractions.

Mr Tinaz Titiz, the Minister for Culture and Tourism, says his department is in the process of drawing up a comprehensive tourism policy which will seek to avoid the kind of fears expressed by Mr Kubali. Like just about everybody in Turkish tourism, he cites Spain as the yardstick. "We certainly don't want to become like the Costa Brava," he says. "We are trying to learn from their bad experiences.

"The number of tourists is not so important. The tourist income is the important thing. If you drop your standards, everybody will come to Turkey but that could result in the destruction of the environment. We aim to be selective."

He is anxious to take on board concepts such as "soft tourism," *promoting an* environmentally- and culture-conscious approach in which visitors take care not to trample thoughtlessly over the *host society in their bid to get a* suntan. Using the slogan: "Turkey is the world's biggest open-air museum," he wants to see tourism development diversify from just sun and sea holidays in the south and west.

With the treasures of successive civilisations strewn across Anatolia, and the country's marvellously rich geography, this is undoubtedly the key to a successful tourism industry. Where else can offer the variety of Istanbul, in the west, the Hittite cities and Capadoccia in central Anatolia, the Graeco-Roman sites of the south and the biblical grandeur of Mount Ararat and ancient Armenia in the east, to name just a few?

The trouble is that these attractions tend to be in relatively inaccessible places, have less of a mass draw and require more sophisticated marketing. They therefore require greater investment for less short-term reward. Not unnaturally, the concentration has instead been on catering to the European package tour market in the Aegean and Mediterranean resort areas.

In this respect, events may have overtaken the tourism ministry. Local municipalities and tourism officials tend to talk proudly in terms of the "explosion" in bed capacity they are overseeing. In Izmir alone, where a new international airport now has numerous scheduled and charter flights to the "big" European markets of West Germany, Britain, France and others, several major hotel developments are under way, including a Hilton *and a Sheraton.*

In this dash to build, it appears not too much attention is paid to considerations such as architecture. There are several imaginative developments along the coast, some of them investments by foreign holiday camp operators, but the norm seems to be boxy concrete dormitories, usually built with below-market rate credits from the Tourism Bank. (Another incentive for investors is duty-free imports for items used in tourism development.) The bank, which has raised Y17.5bn in two placings in Japan since 1985, has lent TL 500bn in the last three years for 560 projects totalling 53,000 beds.

Apart from the inevitable lag in infrastructural development – witness the cratered roads in Marmaris – another crucial element in Turkish tourism which will have to be tackled is the question of staffing. With hotels going up so fast, there is a huge demand for staff. Heavy unemployment and a growing workforce means that labour is available, but there is still a shortage of experienced staff.

Mike Keep, one of three Britons brought in by Yasar Holding to run the Marmaris Altin Yunus, says he interviewed more than 3,000 people to get the 400 employees he needed. Getting management staff was especially difficult and in April he was still looking for a financial controller.

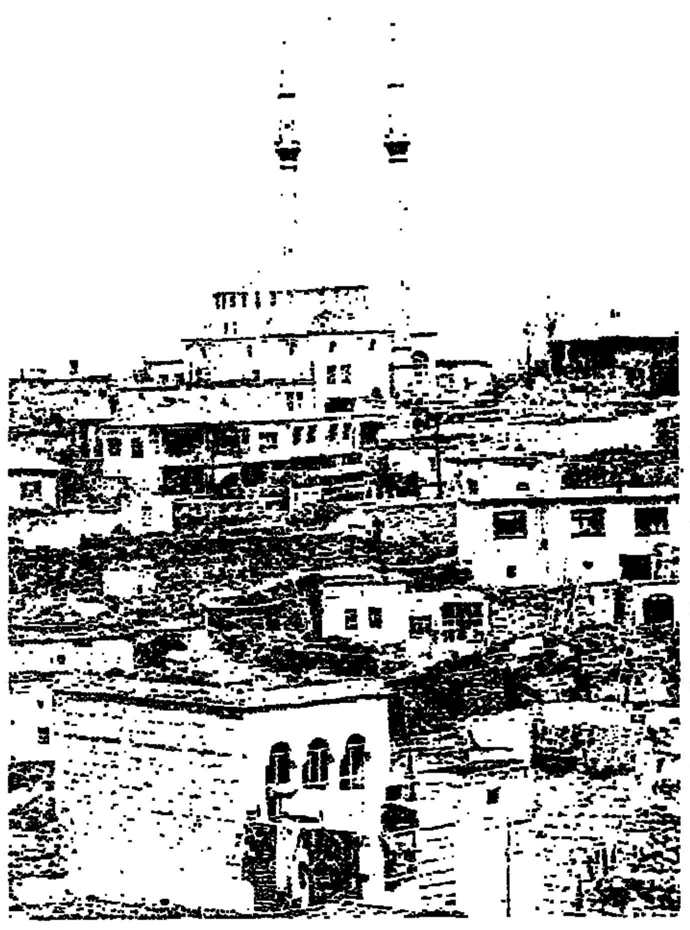
For his class of hotel, Mr Keep can pick and choose. But he waves in the direction of the less salubrious places sprouting up along the coast and asks: "Who's going to run them? Who's going to staff them?"

Hugh Carnegy

Visitors to Turkey

	1985	1986	1987	Change (%) 86/85	Change (%) 87/86
West Germany	299.509	388.192	523.675	29.61	34.90
Yugoslavia	366.473	366.302	343.733	−0.05	−6.16
England	124.677	154.231	266.900	23.70	73.05
Greece	213.222	211.308	173.818	−0.90	−17.74
France	149.950	143.971	168.566	−3.99	17.08
The US	196.261	79.614	130.557	−59.43	63.99
Italy	74.803	87.622	102.358	17.14	16.82

Source: Anka Review



The town of Guzelyurt, in Cappadocia, dates from 2500 BC

A guide for the business visitor

Istanbul has become a conference city

DOING BUSINESS for the visitor in Turkey has become much easier in many ways over the past four years, but in others, more frustrating.

For a start, both in Istanbul and Ankara, there is a far wider choice of hotels to suit most pockets, many with good communications facilities including direct dialling and telex machines (although facsimile is alas less common). The telephone network has been upgraded and overhauled, though dialling out of provincial towns can be trying. And under the impact of both holiday and business tourism, a whole raft of subsidiary services has grown up to facilitate visitors – so much so, that Istanbul has become a premier conference venue.

Airports

Ankara, Istanbul and Izmir all have international class airports, although *most foreign airlines fly to Istanbul,* from where connections have to be made to elsewhere in the country. However, Ankara is slowly attracting more international direct flights – British Airways, for example, starts up a regular service in June. Izmir also receives international direct flights, from Lufthansa and KLM.

Internal travel

Travel around the country is fairly easy, compared with others in the developing category – state-owned Turk Hava Yollari (THY – Turkish Airlines) operates regular flights to most important urban centres. These sometimes can be unsettling, since the mostly Turkish airforce-trained pilots appear to be flying by the seat of their pants *rather than modern direction-finding* devices. Between Ankara and Istanbul, or vice-versa, a more sedate and enjoyable option is by *the luxury yet cheap overnight* "Blue Train", although this tends to get over-booked by tourists in-season.

Taxis

Metred taxi fares are increased by the authorities at regular intervals to compensate for inflation, but are still inexpensive compared with European or North American tariffs. If rapport and exigency combine, it may make more sense to hire a taxi for the day, although in most cities they are abundant.

Hotels: Istanbul

The premier hotels in Istanbul are still the Hilton (*tel 1314646*) and the Sheraton (*tel 1312121*), though these may soon be rivalled and overtaken by others under construction, particularly renovations and conversions of old Ottoman palaces and public buildings – the new Ramada is a tasteful example of the latter. Around Taksim Square is a plethora of medium-priced small hotels of varying standards – close inspection is recommended.

Hotels: Ankara

Ankara had suffered in the past from being the dull, bureaucratic ugly sister to Istanbul's commercial allure. However, hotel construction in recent years has been as prolific, if not more so, as in Istanbul. Visitors no longer have to settle for the government-owned Buyuk Ankara (*tel 1256655*), which itself has been overhauled to keep up with the competition. It still remains the capital's most prestigious establishment, although closely followed by the new Etap Altinel (*tel 2317760*) – but may be overshadowed by the new Hilton nearing completion up the hill, which opens in September. A less costly but very respectable alternative among frequent visitors to the capital is the Best Hotel (*tel 1681122*) ingenuously, if confusingly, named, which currently provides comfortable and efficient hospitality at reasonable prices.

Traffic

Istanbul's traffic congestion is acute at rush hours and chronic at the best of times. There are far more cars on the city's often narrow streets, it seems, and ample time must be set aside to travel between business appointments. Nobody in Istanbul expects you to arrive on time, but you will gain kudos by doing so. The traffic jams are likely to get worse until the city's aggressive mayor, Mr Bedrettin Dalan, can prevail on central government to approve a third bridge across the Bosporus and an associated highway through the heart of the city on the European side.

Restaurants: Istanbul

Restaurants abound, and are as varied in cuisine as the city's cultural history. A fish meal by the Bosporus is de rigueur, although care must be exercised. There are several good restaurants in Arnavutkoy, nearer the city centre. The restaurant of the Bebek Otel is more expensive. Top class restaurants in the city itself include Pandeli's in the Spice Market, and Abdullah and the Pera Sunder. For a fading glimpse of White Russia, try the Rejans in Istiklal Caddesi. A good venue for a business lunch is the restaurant of the Divan Hotel.

Restaurants: Ankara

Ankara has a surprising variety of restaurants. Patronised by many diplomats and bankers is the Somine, in Gaziosmanpasa. Further down in the city is the RV, a favoured haunt of businessmen. For fish – often fresher than in Istanbul – the Rihtim is a good bet. About 15 miles south of the city, overlooking Golbasi Lake, is Chez le Belge, again patronised by the diplomatic community.

Time off: Istanbul

Istanbul has more than enough sights and other entertainment to offer visitors at the weekend – a visit to the Grand Bazaar is recommended for starters, followed by the Aya Sofya and Sultanahmet mosques close by. Nor should a boat trip along the Bosporus in clement weather be missed.

Time off: Ankara

Ankara is less well-endowed, but is centrally placed for wider-ranging excursions – especially to the fairy chimneys, troglodyte dwellings and churches, and catacombs of Cappadocia. There seems to be no reason why foreign businessmen should not mix business with at least a modicum of pleasure in Turkey.

Jim Bodgener